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Singapore 100	100	100	100
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Yokohama 100	100	100	100

EUROPE'S BUSINESS NEWSPAPER

# FINANCIAL TIMES

No.30,602

Friday July 29 1988

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INSIDE  
**UK INDUSTRY**  
Companies go on  
a spending spree  
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## World News

### Mandela's bungalow destroyed by arsonists

The home of Winnie Mandela, wife of the imprisoned African National Congress leader Nelson Mandela, was completely destroyed by fire yesterday. Nobody was injured in the blaze, which engulfed the brick bungalow in a suburb of the South African black township of Soweto at about midday. Mrs Mandela was not at home at the time. Police and neighbours said the fire had been started deliberately.

### Chemical weapons

The US disclosed the locations of five chemical weapons plants and explained in detail how it would go about destroying them. The declaration, at a 40-nation UN Conference on Disarmament, was intended to quicken talks on an international convention banning chemical arms. Page 16

### Angola peace talks

The US State Department said Chester Crocker, assistant secretary for African affairs, would fly to Geneva on July 31 for consultations with a Soviet delegation on the situation in Angola. A fourth round of peace talks is scheduled for early August in Geneva. Where three armies meet. Page 3

### \$10m ransom paid

Mexican industrialist Fernando Sanderio Mestre, seized by kidnappers on July 4, was freed after his family paid a \$10m ransom.

### Airbus crash probe

Technical shortcomings were not to blame for last month's crash of an Airbus A-330 airliner during a French airshow, said investigators. The main factor was that the aircraft was flying below the minimum height and speed stipulated in the flight manual. Page 16

### Jordan scraps plan

Jordan scrapped its development plan for the Israeli-occupied West Bank amid growing speculation that it plans to disassociate itself from the occupied territories. Page 3

### Thai premier quits

Mal-Gen Chatchai Choonhavan's nomination for the Thai premiership was submitted after Gen Prem Tinsulanonda's surprise resignation. Page 3

### Win for Ashdown

UK member of parliament Paddy Ashdown was overwhelmingly voted Social and Liberal Democrats' leader. He won 41,401 votes against former deputy Liberal leader Alan Beith with 16,502. Page 6

### Landmine victim

Sergeant Michael Matthews, a patrol commander serving with the Parachute Regiment, died in hospital of injuries received in a landmine blast near Cullyhanna, Northern Ireland, on Wednesday.

### Communists ejected

Turkish police ejected four West European communists, one a French parliamentarian, from the grounds of Prime Minister Turgut Ozal's official residence after the four were denied permission to see Ozal over the trial of two Turkish communists.

### Peace convoy

A US "peace convoy" of 20 trucks protesting against Washington's policies in Central America arrived in Nicaragua after sneaking out of the US with a cargo of food, toys and medical supplies.

## Business Summary

### Two sacked at Norsk Hydro unit after losses

NORSK HYDRO, Norway's largest publicly quoted company, dismissed two senior employees in its Hydro Aluminium subsidiary's trading unit for alleged business misconduct revealed by an internal company audit. It disclosed Nkr228m (\$33.5m) in trading losses at the unit. Page 17

### PHILIPS, Dutch electronics giant, blamed a 44 per cent plunge in second-quarter earnings, to the lowest quarterly level in five years, on cut-throat competition from south-east Asia. For the first half, net income fell 20 per cent to Fl 338m (\$64m). Page 17

### REVCO D. S. once the biggest and fastest growing drug store chain in the US, went bankrupt less than 19 months after being taken private in a widely-applauded \$1.3bn leveraged buyout. Page 17

### BRCC, British electric cables and construction group, has agreed to acquire the cable-making business of Cavi, Italy's second largest cable manufacturer, in a deal worth \$90.4m (\$135.5m). Page 17

### YAMAICHI SECURITIES, one of Japan's Big Four stockbrokers, is linking with Lodestar Group, Wall Street mergers and acquisitions specialist, by taking a 25 per cent stake in Lodestar Partners, a joint venture to manage leveraged buyouts. Page 17

### CHRYSLER, third largest US motor manufacturer, reported that net profit in the second quarter was \$330m compared with \$424m in the same period last year. Page 18

### PAN AM, US airline group, announced a second-quarter loss of \$5m, against a second-quarter profit of \$10.5m last year. Page 18

### ARIANESPACE, French company which builds, operates and launches Western Europe's Ariane space rockets, said it would propose floating shares on the French stock exchange next year. Page 20

### SUMITOMO BANK became the latest of Japan's large commercial banking groups to unveil a large-scale share issue in order to bring its capital adequacy in line with international standards. Page 20

### CSR, Australian resources group, agreed to sell nearly all the coal-mining interests of its coal division, once among Australia's biggest, to Royal Dutch/Shell and the local Coal and Allied Industries for A\$268m (US\$215m).

### NISSAN MOTOR is to become the first Japanese automotive group to integrate its development and production centres in Japan, Europe and the US with a global satellite-linked computer-aided design (CAD) network in order to speed up vehicle development and production overseas. Page 20

### DIGITAL Equipment, world's leading manufacturer of minicomputers, managed a small improvement in its profits during the latest quarter, after the flat results of three months ago. Page 18

### BCE, Canada's largest holding company, recorded second-quarter net earnings of C\$268m (US\$207m) following higher contributions from its telephone services and equipment subsidiaries and sharply lower preferred stock dividends. Page 18

## Heavy intervention fails to hold back sterling, dollar rise

By Simon Holberton, Economics Staff, in London

STERLING and the dollar rose sharply on foreign exchange markets yesterday despite an estimated \$1bn of central bank intervention and a rise in official interest rates in West Germany.

The two currencies were buoyed by the prospect of sustained high- or possibly rising interest rates in the US and Britain.

Testimony before a panel US House of Representatives' banking committee, yesterday by Mr Alan Greenspan, chairman of the Federal Reserve Board, was also seen as positive for the dollar.

He expressed surprise at the rise in inflation in the US during the second quarter of this year which was taken in the markets as a signal that the Fed might further tighten monetary policy.

The decision yesterday by the Bundesbank, the West German central bank, to raise its Lombard emergency finance rate to 5 per cent from 4 1/2 per cent did little to engender currency market interest in the D-Mark.

Official interest rates in the Netherlands and Austria were also raised after the German

move. France, however, left its interest rates unchanged.

By the close of trading in London, the pound and the dollar had both risen by 2 pence in active trading. The pound also maintained its level against the dollar despite the latter's overall strength across a broad range of currencies.

The Bank of England intervened twice in an effort to stall the rise in sterling. It is estimated that the Bank bought more than \$500m of a basket of European currencies, although most purchases were D-Marks.

The central banks of Spain and Italy also intervened to stop their currencies rising against the D-Mark. In total they purchased about DM850m (\$460m), but to little avail. The Bank of Spain conducted the bulk of these purchases.

In New York, currency traders said the Fed intervened when the dollar rose to a level above DM1.8650.

In his testimony before the House, Mr Greenspan indicated that a further appreciation of the dollar would work against the aim of resolving major trade imbalances. At the same time he indicated his strong opposition to any substantial decline in the dollar's value. The aim of policy should be the maintenance of "stability" in currency markets.

The pound closed in London at DM3.2125 against DM3.1925 on Wednesday, and at \$1.7250 against \$1.7225. The Bank of England's trade-weighted sterling index closed 0.3 higher at 76.8.

In London, the dollar closed at DM1.8645 compared with DM1.8400 on Wednesday and at Y132.35 compared with Y131.65. In New York the dollar closed at DM1.8545 (\$1.8480), £1.72120 (\$1.7265) and Y132.57 (\$131.58).

STERLING

Index 1975=100 (Bank of England)

77

76

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74

3.20

3.15

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July 1988

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## Bundesbank leaves few clues on liquidity

By Andrew Fisher in Frankfurt

WEST GERMANY's central bank, the Bundesbank, yesterday continued its step-by-step advance in interest rates by raising the Lombard emergency funding rate from 4 1/2 to 5 per cent, although it left dealers guessing as to whether it would inject more liquidity to the banking system in the next weeks so as to avoid further market tightening.

Although the Lombard rate rise had been generally expected, since overnight money rates had risen to the pre-increase level, some economists expressed disappointment that the Bundesbank had not also decided to announce more action on liquidity. It will thus be under continued scrutiny next week when the next round of securities repurchase (repo) deals with commercial banks occur.

"We are disappointed that it

took no measures to supply liquidity," said Mr Peter Piesch, an economist with Commerzbank. "It shows that the Bundesbank wants higher rates." The central bank could have increased rediscount rates or cut minimum reserve requirements.

Mr Piesch, chairman of the Frankfurt-based bank, said on Wednesday he saw no economic reason for higher interest rates. The increase in prices had been much slower than expected—official cost-of-living figures showed yesterday only a 1 per cent rise in July compared to a year ago—so attempts to brake monetary expansion did not have to be too sharp.

However, Mr Seipp supported the Bundesbank in raising the repo rate from 3 1/2 to 4 per cent in recent weeks. The bank acted

to dampen potential inflation, regain control over money supply and prevent trade surpluses from remaining too high. The Bundesbank said the Lombard increase reflected money market rate trends and tensions on the foreign exchange market.

Economists expect the repo rate to move up again next week, perhaps to 4 1/2 per cent, the extent depending on how generally the Bundesbank replaces the DM200m (\$110m) of repo that will expire. "If less is made available, the repo rate could go up to 4 1/2 per cent," reckoned Mr Michael Hopf of Manufacturers Hanover Trust.

With the rise in call money to about 4 1/2 per cent, which was the Lombard rate before yesterday's rise, a further small rise in the repo rate would again make it the key money market indicator.

## UK Government plans tax for non-residents

By Richard Waters in London

BRITAIN's inland revenue is planning big changes to the tax rules for people who spend only part of each year in the UK.

The Revenue is proposing among other things that they should be taxed in Britain on a proportion of their worldwide income and capital gains.

This would introduce for the first time in UK tax law a variant of the unitary taxation system used by some US states to tax foreign corporations, something which has been heavily criticised by the UK Government.

The proposal is contained in a consultative document which has wide-ranging implications for people who spend less than half of their time in the UK each year.

Announcing the overhaul, Mr Norman Lamont, Financial Secretary to the Treasury, told

the House of Commons that the current residence rules are "complex, long-standing and lack a statutory base". He said: "The aim is to move in the direction of greater simplicity, certainty and neutrality, and to relate liabilities to UK tax more closely to the degree of an individual's connection with this country."

One aim of the review is to reduce people's scope to manipulate the rules to secure a tax advantage," said the Revenue.

Forecast among the proposals is that anyone present in the UK for more than 183 days in a year would be judged to be resident for tax purposes, and their place of abode would cease to be a factor.

People present for more than 30 but less than 183 days would be subject to a complex formula: the number of days

spent in the current year, plus a third of those in the previous year and a sixth in the year before that, would be added together to see if they passed the 183-day test. People who had been resident for less than seven of the previous 14 years would be granted a concession. Rather than being taxed on their worldwide earnings and gains, they would pay tax either on a proportion of these, or on income actually remitted to the UK.

The Revenue insisted yesterday that the proposals, which apply only to individuals and not companies or other entities, may change as a result of consultation with taxpayers.

Residence: The Scope of UK Taxation of Individuals, Inland Revenue Reference Room, Room 8, New Wing, Somerset House, Strand, London, WC2R 1LB, price £1.50.



Nigel Lawson

## UK prices to rise for a year, says Lawson

By Peter Riddell, Political Editor, in London

BRITAIN's inflation rate will edge up for another year before coming back down again, Mr Nigel Lawson, the Chancellor of the Exchequer, admitted yesterday during a generally optimistic mid-year assessment for Conservative MPs.

The Treasury has already conceded that the annual rate of increase in retail prices is likely to exceed the forecast level of 4 per cent at the end of this year, but this is the first time Mr Lawson has said the rate is likely to rise further next year.

Independent forecasters have projected a rise in the annual inflation rate, currently 4.6 per cent, up to a peak of about 6 per cent.

Mr Lawson drew a comparison with the temporary blip in inflation three years ago, when the rate "edged up in the first half of 1985, before coming down again to the lowest levels for a generation. In the same way, inflation is now likely to edge up in the second half of the year, and the first half of next year, before coming back down again. What-ever action is necessary to keep inflation under control, this Government will always take."

He told Conservative MPs, in a letter before the start of the "parliamentary" recess today, that while, overall, the economy was "doing well, the difficulties that beset us are difficulties we have successfully dealt with in the past and will do so again, without drama, and without interrupting the steady progress we have already achieved."

Mr Lawson argued that one consequence of the co-ordinated international relaxation of monetary policy in the wake of last October's stock market crash had been "a modest but unacceptable pick-up in inflation."

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## US says 1989 budget deficit will be \$140bn

By Anthony Harris in Washington

THE US Government yesterday forecast that its budget deficit for 1989 would be just over \$140bn, without allowing for the cost of drought relief.

Although inflation assumptions contained within the projection have raised questions about its accuracy, this could mean that the figure is too high rather than too low as has been the case with many past forecasts.

The official August projection is the basis for automatic spending cuts under the Gramm-Rudman Act, and leaves room for a \$50m relief programme. Anything larger would trigger automatic cuts in other programmes, a risk which Congressmen will be reluctant to take while they are anxious to leave Washington and start campaigning in their constituencies.

The projection should have been published two weeks ago, but the Office of Management and the budget delayed it in order to include the relief programme. It has now instead attempted to impose a cap on drought relief by threatening automatic cuts in other programmes.

The projection is based on an assumption of real growth of 3.5 per cent this year and 3.1 per cent next year, both somewhat higher than earlier forecasts but in line with recent trends. Inflation, measured by the GNP deflator, is forecast at 3 per cent this year and 3.5 per cent next.

The inflation forecasts were immediately greeted by financial analysts as unrealistically low. In the Senate, Mr Alan Greenspan, the Chairman of the Federal Reserve Board, admitted that the 4.7 per cent annual rate rise in the three-weight GNP price index announced yesterday was "surprising", and suggested that it might reflect seasonal adjustment problems. Retail price inflation is running at just over 3 1/2 per cent, but is widely expected to rise to 4-4 1/2 per cent.

The apparently modest inflation projections are due partly to the use of the GNP deflator rather than the retail price index as a measure. The deflator applies only to US sales and leaves out import prices. It is further reduced by the changing composition of GNP.

Mr Greenspan's visit, hailed yesterday by the Soviet authorities as a sign of the "intensity" of relations between the two sides, will prepare Chancellor Helmut Kohl's journey to Moscow in October, during which the West German leader will focus attention on economic issues.

In an interview with Suddeutsche Zeitung, the Munich daily newspaper, the text of which was released in Bonn before today's publication, Mr Greenspan paid tribute to the progress which glasnost was making in Soviet society. West Germany would be playing an "active and constructive" role in the overall "modernisation" of East-West relations.

Yesterday's agreement on aerospace co-operation followed a five-day visit to the Soviet Union by a delegation of German aerospace officials and industry representatives.

Mr Genscher today begins a three-day visit to Moscow during which he will urge rapid progress towards conventional disarmament between East and West. His statement yesterday coincided with an agreement in Moscow for West Germany and the Soviet Union to study collaboration in five separate areas of the aerospace industry.

Mr Genscher, the champion within the Bonn Government of closer ties between East and West, will meet Mr Gorbachev in Moscow tomorrow and will also hold talks with Mr Eduard Shevardnadze, his Soviet counterpart.

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## EUROPEAN NEWS

# Timetable deal closer in Europe security talks

By Judy Dempsey in Vienna

WESTERN AND Warsaw Pact countries have failed again to decide whether to prolong the current round of talks on European security, due to break up today.

But there seemed to be a growing, if reluctant, consensus that they should work until August 5 and return around August 29.

There has been controversy over the duration of the current session of the Conference on Security and Co-operation in Europe (CSCE) since last week, when Bonn suggested that the talks continue at least for the duration of the forthcoming Moscow visit of Mr Hans Dietrich Genscher, its Foreign Minister.

Yesterday, several delegations, including those of the US, Canada and the Netherlands, argued against too short

a recess because they would not have enough time to consult their governments.

The West Germans - and the French, who on Wednesday were saying there should be no break in the talks - yesterday softened their line and indicated they might accept the prevailing view that some recess was necessary.

Romania fell into line with its Warsaw Pact partners and expressed willingness to prolong the meeting by a week.

But there was disagreement among the 12 neutral and non-aligned states after Finland proposed that the talks continue, without a break, until a final document was ready.

A CSCE agreement, covering security, human rights and economic co-operation, has to be reached before fresh negotiations on conventional arms in Europe can get off the ground.

## More East Germans move to the West

By Leslie Collett in Berlin

EAST GERMANY is expected to permit at least 20,000 citizens to "resettle" in West Germany this year, double the number last year, in an apparent attempt to quell rising economic and political dissatisfaction.

The West German Permanent Mission in East Berlin said yesterday that the authorities had issued 10,000 permanent exit papers in the first six months of 1988, compared with 11,459 in the whole of last year. A record 40,000 East Germans were permitted to move to West Germany in 1986 but the number dropped sharply in

the following years.

The largest number of applications to leave came from Dresden, Gera and other cities near the Polish border which are out of range of West German television channels.

An official of the East German mission said estimates of the number of applications from East Germans seeking to leave ranged from 200,000 to as many as 1m, out of a population of 16.6m. The reason for the large "grey area", he said, was that no one knew how many applications had been withdrawn or invalidated.

## Italy sued over cheque surcharge

By David Buchan in Brussels

THE European Commission yesterday started legal proceedings against Italy for imposing an allegedly discriminatory tax on foreigners' bank cheques.

At issue is the government decision two years ago to levy L300 (8p) on every cheque, and an extra L500 on foreign cheques and cheques written for more than L50,000. The Commission regards the latter portion of the tax as illegal discrimination by Italian banks towards citizens of other Community countries.

The move comes at the behest of the Eurocheque organisation, whose 9,000 participating banks in 32 countries allow Eurocheque cardholders to cash cheques in local currencies across EC and other borders. Many of these suffer from the supplementary Italian tax on Eurocheque cardholders. The irony is that the Eurocheque system is itself under investigation by the Commission for other extra charges levied by some member banks in the system.

Two years ago the Commission refused to renew the exemption given to Eurocheques from the general EC ban on restrictive agreements. The exemption has been granted on condition that banks issuing cheques charged a uniform handling fee, with no extra charges imposed by banks cashing the cheques. But in 1986, Eurocheque raised the handling fee from 1.25 to 1.6 per cent of each cheque's value, and the Commission started receiving complaints that some banks were charging for cashing cheques as well.

The Brussels-based Eurocheque International organisation yesterday admitted several discrepancies in its system, but said it was doing its best to sort these out. Some banks did not make the 1.6 per cent fee very transparent to customers.

Mr Huib Crauwels, secretary general of Eurocheque Belgium, said his country's banks were now refunding to their Eurocheque customers any extra they paid abroad, and then trying to reclaim this from foreign banks.

## France to probe cement industry pricing practice

By George Graham

THE FRENCH Government has launched an investigation into the pricing practices of the country's cement industry.

Mr Pierre Bénévise, the new Finance Minister, has asked the competition council to examine whether cement producers are operating an anti-competitive cartel aimed at fixing their market shares.

The investigation will focus on the practice of "parity rebates", a system of published price reductions designed to ensure that cement buyers in a given place will pay the same price, whichever cement producer they buy from.

"We wonder if this system is not at the root of the rigidity of market shares in the cement sector," said Mr Christian Babin, director-general of competition and consumer affairs at the Finance Ministry.

French cement producers yesterday rejected the charge. They argue that since cement has a low unit price but high transport costs, the system of parity rebates prevents consumers from being forced to buy from the nearest supplier, and thus improves the workings of the market.

## Europe's Conservatives left shivering as Socialists run off with their clothes

FRANCE'S CONSERVATIVES have been thrown into disarray by a series of electoral setbacks, which have both exacerbated and thrown into sharper relief their internal divisions. At one end of the spectrum, there are moderates who are willing in principle to co-operate with President François Mitterrand's Socialists; at the other there are the far-right nationalists of the National Front.

To some extent, the problems of the French right stem from the personal rivalry between ex-President Valéry Giscard d'Estaing and his two former Prime Ministers, Mr Jacques Chirac and Mr Raymond Barre. But the disarray also reflects a political dilemma common to the right-wing movement in several European countries.

## Policy disputes and personal rivalry hamper French right

By Paul Batts in Paris

FRANCE'S TROUBLED conservative and centrist parties are trying to establish an entente cordiale between the various components of the right and form a more credible opposition to President François Mitterrand's Socialists. But they face an uphill task because of disagreements about policy and the rivalries of leaders of the different political factions.

As a first step towards stitching together a united front, the leaders of the two main parties of the traditional right met yesterday, surrounded by imposing delegations.

The neo-Gaullist RPR delegation was led by Mr Jacques Chirac, the former Prime Minister, who used the occasion to make a shy return to the political scene after his defeat in the presidential election.

The centrist UDF delegation was led by former President Valéry Giscard d'Estaing, who has made an impressive comeback since the elections, regaining the leadership of the UDF centrist movement which he started.

The meeting signalled the start of a consultation process, aimed at picking up the pieces after the right's electoral setbacks and regrouping before next autumn's cantonal elections and municipal polling next spring.

The fundamental problem facing the right and centre-right is the definition of a common strategy to thwart President Mitterrand's efforts at broadening the Socialist electoral base and securing wider support for the minority Socialist Government.

So far, Mr Mitterrand has been frustrated in his efforts, but the right fears that with time an increasing number of centrist may be tempted by his blandishments.

The problem has been exacerbated for the right by the gradual disappearance of the traditional ideological rift in France between right and left. Indeed, as Mr Giscard d'Estaing himself has often suggested, two of every three Frenchmen are now centrist at heart.

The other problem is the old chestnut of the right's relations with the extremist National Front of Mr Jean-Marie Le Pen. Although the Front was left with only one parliamentary seat after the last legislative elections, it still holds the balance of power in many local communities.

The question for the traditional parties of the right is whether to agree to a "dirty deal" with the Front to secure local government seats or see a victory for the Socialists, who have fewer scruples about negotiating locally with the

When a Socialist Government is happily shedding its ideological baggage, modernising and deregulating the economy, and preparing for European integration, what ideological space is left for the conservatives?

The question poses itself with particular acerbity for parties whose roots are authoritarian and dirigiste; they are in danger of appearing "behind the times" while their Socialist rivals are perceived as "modern".

FT correspondents report from three countries where the task of adapting the economy to an interdependent Europe (and of improving previously difficult relations with Nato) has fallen on Socialist rather than conservative shoulders.



Mitsotakis: Image problems.

## Papandreou steals the thunder

By Andriana Ierodiakonou in Athens

NEW DEMOCRACY, Greece's right-of-centre opposition party, lost power in 1981, shortly after pulling off one of the most astute political moves in the country's recent history: joining the European Community.

It was left to Mr Andreas Papandreou's Socialists to tone down their anti-EC rhetoric and reap the political benefits flowing from the net transfer of funds from Brussels to Athens.

Seven years later Mr Papandreou's Government is showing a super-European profile which is difficult for the conservatives either to challenge or to best.

This role-reversal has also occurred in most other areas, including the economy, where, after one term of socialist experimentation, Mr Papandreou embarked with fervour on the road to deregulation and the wooing of private enterprise.

The Socialists have also moved towards the conservative position by reconciling themselves to membership of Nato and rejecting the demand for US military bases as a long-term aspiration.

The task facing New Democracy ahead of the next general election (due by June 1990) is that of projecting a convincing pro-Western, pro-business image in contrast to the "corrupt" Socialists.

There are some signs that this message already carries some force with younger voters: the Conservatives now hold the lead in student elections, a striking change from the recent past. ND is currently ahead of the Socialists in the polls, with many voters undecided.

But Mr Constantine Mitsotakis, the ND leader, has image problems: he was a prominent figure in the mid-1960s government crisis which culminated in a military junta.

The key to attracting swing voters will lie in devising a convincing programme for the modernisation and streamlining of Greek government and society, a process which by many indicators - bureaucracy, nepotism, health care and education - has hardly begun.

If Mr Mitsotakis fails to do this, he will almost certainly be supplanted by a younger guard of conservatives who are waiting in the wings.

## Montedison angry at order to shut plant

THE MONTEDISON group yesterday protested strongly at the Italian Prime Minister's decision to shut a chemicals plant in Liguria following the release of sulphurous gas last weekend, writes Alan Friedman in Milan.

Mr Ciriaco De Mita ordered the Accia di Cengio plant shut for 45 days after four of his cabinet ministers failed to come to a decision. The Accia accident came a few days after an explosion and fire led to the closure of a Montedison pesticides plant in Tuscany.

The head of Montedison, Mr Raul Gardini, yesterday called the decision an "unacceptable precedent for industry". The company issued a statement suggesting that the closure could have "serious consequences for the structure of the entire Italian chemicals industry."

## Swiss exports up almost 10%

FOREIGN DEMAND for Swiss goods was "unusually good" in the first half, according to the country's customs directorate, writes John Wicks in Zurich. Merchandise exports went up by 9.9 per cent over the corresponding period of 1987 to SFr68m (E13.6bn).

More than half this increase was accounted for by the machine-building and electrical engineering sector and the chemical industry. Imports grew at nearly the same rate - 8.1 per cent to SFr40.1bn - reflecting lively Swiss demand and high capacity utilisation. The trade deficit went up slightly to SFr2.8bn compared with SFr3.9bn in the first half of last year.

## Austrian debt rises Sch48bn

AUSTRIA'S federal debt rose to Sch745bn (E38.4bn) at the end of June from Sch697bn at the end of last year and Sch617bn the year before, Mr Helmut Frisch, chairman of the national debt committee, said yesterday, writes Judy Dempsey in Vienna.

However, Mr Ferdinand Ladner, Finance Minister, said that if the Government met its budget deficit target, the figure for total debt should still be around current levels at the end of the year. The Government wants to hold the deficit at Sch18bn (4.6 per cent of GDP) this year, compared with just over Sch30bn in 1987.

## Portugal's trade deficit widens

PORTUGAL'S TRADE gap continued to widen, with imports growing at almost twice the speed of exports, writes Diana Smith in Lisbon. It reached E821.4m (E81m) at the end of April, with exports totalling E597.4m, 4.8 per cent more than January-April 1987, and imports grew 8.5 per cent to E651.8m.

The widening trade gap has begun to affect the current account on the balance of payments, which has been positive since 1985: a small deficit of \$20m showed on the balance for the first quarter, due not only to the trade gap but to slacker tourism revenue and emigrants' remittances.

## Finland turns to West Germany

WEST GERMANY has become Finland's largest trading partner, passing the Soviet Union for the first time this decade, writes Olli Virtanen in Helsinki. Trade with the former reached FIM1.37bn (E1.5bn) during the first six months; trade with the latter, FIM1.25bn.

Finland's total imports in January-June grew by 7 per cent compared with the same period last year, outpacing exports, which increased by 5 per cent. The trade surplus grew from FIM1.7bn to FIM2.4bn during the period. Export growth was led by forest products and basic metals. Imports of consumer and investment goods as well as machinery and equipment grew fastest.

## FINANCIAL TIMES

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**The Randfontein Estates Gold Mining Company, Witwatersrand, Limited**

**Barnato Exploration Limited**

**Lindum Reefs Gold Mining Company Limited**

Entitlement of members of Randfontein to the issue of shares in BARNEX and LINDUM, free of consideration, and proposed rights offers of shares in BARNEX and LINDUM to members of Randfontein.

It was announced on 24 June 1988 that two companies were being formed, namely BARNEX and LINDUM, in order to:

- In the case of BARNEX, finance Randfontein's gold exploration interests and
- In the case of LINDUM, independently finance and exploit the underground gold Randfontein on the basis of 1 BARNEX and 1 LINDUM shares for every Randfontein share held ("the entitlement issue").

BARNEX proposes to raise an amount of R75.2m by way of a renounceable rights offer to the members of Randfontein of 16 340 058 shares ranking pari passu in every respect with the existing issued shares, at a subscription price of 410 cents per share.

LINDUM proposes to raise an amount of R50.2m by way of a renounceable rights offer to the members of Randfontein of 12 227 105 shares ranking pari passu in every respect with the existing issued shares, at a subscription price of 250 cents per share.

In terms of the Comprehensive Anti-Apartheid Act of 1986 passed by the United States Congress, members of Randfontein whose addresses appearing in the share registers of Randfontein are within the United States of America will not legally be able to accept any of the entitlement issue shares. These shares will be sold on either the JSE or the LSE and the proceeds according to individual members will be remitted to them.

BARNEX and LINDUM shares will not be registered with The Securities and Exchange Commission, Washington D.C. or the Securities Commission of Ontario and accordingly the rights offers are not being made to persons with registered addresses in the United States of America or Canada. The rights which would put for this exclusion have been offered to the excluded members shall be sold for their benefit.

The above transactions will have no effect on the earnings and net asset value per Randfontein share.

The entitlement issue and rights offers are subject to The Johannesburg Stock Exchange ("JSE") granting listings of:

- the entitlement issue of 6 113 553 ordinary shares (fully paid) in each of BARNEX and LINDUM; and
- the renounceable (nil paid) letters of allocation in BARNEX and LINDUM arising from the rights offers and the ordinary shares (fully paid) issued pursuant thereto.

In addition, applications for listings have been submitted to the Council of The International Stock Exchange of the United Kingdom and the Republic of Ireland Limited ("LSE").

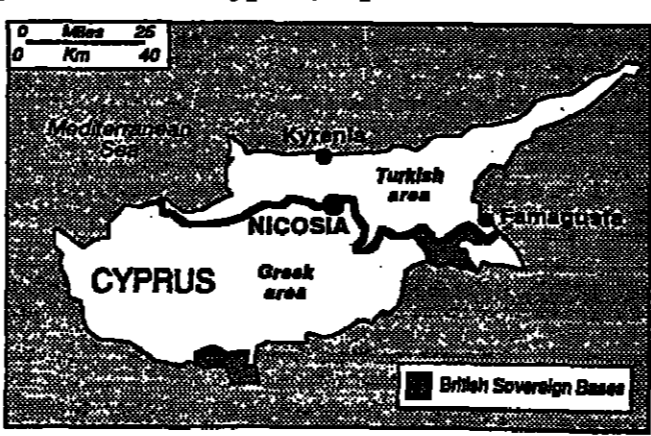
Randfontein members who are registered at the close of business on Friday 19 August 1988 will be entitled to receive the entitlement issue shares in BARNEX and LINDUM and to participate in the rights offers. Accordingly, the share registers of Randfontein will be closed from 20 August 1988 to 28 August 1988, both days inclusive.

The rights offer circular, which will include, for both BARNEX and LINDUM, the renounceable (nil paid) letters of allocation and pre-emption statements, is being finalised and will, subject to the rules, requirements and procedures of the JSE and LSE, be posted to members of Randfontein on 26 August 1988.

Johannesburg, 28th July 1988.

## Turkish Cypriots build mosques but find no peace

Jim Bodgener, recently in northern Cyprus, reports from an island divided for 15 years



It will be five years old under the leadership of Mr Rauf Denktaş. One after another, settlement plans have been drawn up by UN mediators, each a revised variant of its predecessor, but all have foundered on the basic question of power-sharing by the Greek and Turkish communities rather than territorial concessions.

According to international law, Mr George Vassiliou is president of all Cyprus, but Mr Denktaş will not agree to anything less than a partnership of equals. There is an air of weary resignation about UN personnel and their reports emanating from Cyprus - even Mr Denktaş, whose energy and stamina are indefatigable, said last week he was not optimistic about the outcome of a meeting with Mr Vassiliou, due to be held shortly under the UN's aegis in Geneva.

Under heavy pressure from Ankara to attend, he will go to the meeting on the understanding that there will be no pre-set agenda, and no reference to any past settlement proposals. Stalled proposals by Mr Javier Perez de Cuellar, the UN

Secretary-General, on March 29 1986, envisage a bi-zonal, federated state. Acceptance of a permanent Greek-Cypriot presidency, as set out in the March 29 package, has been Mr Denktaş' largest concession to date, and is as far as he is prepared to go. But Mr Vassiliou - like his predecessor, Mr Spyros Kyprianou - has already disavowed the March 29 document.

Ankara plainly does not want to jeopardise the fragile rapprochement achieved with Greece since the breakthrough achieved at a mini-summit at Davos in Switzerland in early February. However, little of substance has yet emerged from the so-called Davos Spirit for the Turkish-Cypriot regime, whose officials privately opine that for them the Davos accord has already withered on the vine.

This impression has only been reinforced by Greece's assumption of the EC presidency, openly stating that Turkey cannot expect any concessions from the EC - particularly on its full membership application - while Turkish troops remain on the island.

The stalemate since 1974 has frozen northern Cyprus in time. On one side of the two tiers of rusting oil drums and barbed wire that demarcate the buffer zone between the two communities in Nicosia, and of the Green Line dividing the island, is a skyline of office and apartment blocks, and tower cranes - an economic recovery in the Greek sector hailed as a miracle by its Western admirers. On the other side, the only visible aid-funded project is a roundabout donated by Saudi Arabia.

Limited assistance from Turkey helps the TRNC to get by, but Ankara has its own financial problems.

One thing does, however, seem probable for the foreseeable future, and has been rammed home repeatedly by Mr Denktaş. There can be no compensation, and moveable property can be transferred from one side of the island to the other. But Greek-Cypriots cannot return north, nor Turkish-Cypriots south - the division is too deeply entrenched. The church bells may never summon the faithful to prayer again.

## OVERSEAS NEWS

## Thailand may get new premier as Prem resigns

By Peter Ungphakorn in Bangkok

MAJOR GENERAL Chatchai Choonhavan's nomination to be Thailand's next prime minister was submitted to the president of the Senate yesterday, following Gen Prem Tinsulanonda's surprise decision to step down.

The real but unexpected possibility of Thailand having its first elected prime minister since 1976 represents significant progress for Thailand's democratic institutions.

But it will also present a severe test of unity for the various factions in the proposed five-party coalition, and could affect Thailand's progress towards joining the newly industrialising countries.

The army is pledged to support any legally appointed government but will watch developments closely. Although the possibility of Gen Prem standing down had not been ruled out, it was never treated seriously until the moment it was announced on Wednesday night, four days after the general election.

The reasons remain unclear. When senior army officers visited Gen Prem on Wednesday morning, most assumed this was an expression of support. Then, in the evening, some sin-



Chatchai Choonhavan

dents demonstrated briefly and peacefully outside his house to protest against another term for Gen Prem because he did not stand for Parliament. The constitution drawn up under heavy military influence 10 years ago allows a non-elected prime minister.

The mounting criticism may have contributed to Gen Prem's decision. The prospect of another rough term, with the largest coalition party holding less than a quarter of the 357 lower house seats, may also have deterred him. Or the

meeting with the military may have swayed him.

Yesterday, some of his harshest critics, including Mr Kukrit Pramo, a former prime minister, paid tribute to what they described as a democratic gesture.

Maj Gen Chatchai, 66, a retired cavalry officer, heads the business-oriented Chatchai Party, which won 87 seats in Sunday's election. He is a former diplomat, foreign and industry minister, and has been a deputy prime minister under Gen Prem since 1986.

He is expected to reappoint Air Chief Marshal Siddhi Savetila, leader of the 54-seat Social Action Party, as foreign minister.

The other parties in the proposed 215-seat coalition are the Democrats, Ruam Thai, a northern-based grouping, and the United Democratic Party, which only has five seats.

Although most commentators welcomed the development, there were also concerns that some politicians, if given a free hand, could worsen Thailand's corruption problems. Most were willing to let the new government prove itself although there are doubts about how long it will last.

## Sihanouk to meet leader of Kampuchea

By John Murray Brown in Jakarta

TALKS IN INDONESIA aimed at resolving the nine-year Kampuchean conflict concluded yesterday with delegates unable to agree on a final communiqué but committed to continue the peace process with the setting up of working committees.

Prince Norodom Sihanouk, former leader of the three-party Kampuchean government in exile, and Mr Hun Sen, Prime Minister of the non-communist Association of Southeast Asian Nations, the Khmer Rouge, the largest of the three anti-Vietnamese resistance groups launched a fierce attack on Hanoi's occupation of the country.

Following the final day of talks among the four Kampuchean factions, Vietnam, Laos, Cambodia and the Khmer Rouge, the six members of the non-communist Association of Southeast Asian Nations, the Khmer Rouge, the largest of the three anti-Vietnamese resistance groups launched a fierce attack on Hanoi's occupation of the country.

Perhaps more remarkable given their bitter divisions was that the four factions met for the first time since Vietnam's invasion in 1978 without major breakdowns.

Indeed the Prince and Mr Hun Sen now seem broadly agreed on the need for a power-sharing body to take the country through to general elections following Vietnam's withdrawal.

Prince Sihanouk, in presenting his peace plan to the four factions this week, dropped his earlier demand that the PRK be dissolved as part of a settlement. He said the four Kampuchean armies should remain intact.

The Peking-backed Khmer Rouge, which controls the largest guerrilla force fighting Vietnam's occupation from bases in Thailand, this week sat silently through most of the closed sessions, forced to endure repeated calls from both Vietnam and the PRK for the elimination of its 30,000-strong armed force.

It was the Khmer Rouge government of Mr Pol Pot which for three years ravaged Kampuchea, killing perhaps as many as 1m people and prompting Vietnam's invasion.

"If one party obstructs a solution," said Mr Hun Sen, "the other should not let this remain in the way of a political solution and prolong the agony of the Kampuchean people."

Vietnam's planned withdrawal of its 140,000 troops by December 1989, a year ahead of schedule, has served to ease the long-running issue and raised hopes of a return to power of Mr Pol Pot.

During the business year under review, personal consumption in Japan has grown at a steady pace. At the same time, housing investment showed large growth and capital expenditure was restored. On the whole, the Japanese economy expanded primarily because of increasing domestic demand.

Under these circumstances, the Company was able to achieve the results shown below by exerting its best efforts to expand the Company's business and to improve its managerial efficiency. We are, as ever, grateful for your kind support, without which these results could not have been achieved.

Looking to the present and the future, various difficult factors will influence the development of the Japanese economy including the restructuring of the economy caused by stimulating domestic demand and whilst at the same time adversely affected by increased trade friction and the considerably stronger value of the yen. The business environment of the non-life insurance business is in the process of significant changes, which include the measures taken by the Japanese government to liberalize some of the restrictions on financial activities and internationalize these activities, the change of industrial structure and the approach of the so-called "aged society".

Under these conditions, the Company strives to further improve its business results. To this end, and being keenly aware of the many important changes in our business environment, the Company intends to further strengthen its corporate structure through continuous efforts to secure and develop its manpower, as well as through concerted efforts to elevate the level of managerial efficiency, to carry out research and development in respect of new lines of insurance and services which correspond to the increasingly diversified coverage needs of consumers, to improve its sales network and claim handling system, to strengthen its investment abilities and to expand the information systems which support these activities.

In addition, the Company will have attained the 70th anniversary of its foundation on October 21, 1988, under your patronage. We deeply appreciate your continued favor and take this occasion to request your further support and cooperation in the future.

**Business in General**  
In order to meet diversified coverage needs, the Company marketed several innovative types of insurance, such as Juvenile Comprehensive Insurance with Maturity Refund, whilst continuing its ongoing efforts to develop asset formation insurance of all types. Also, the Company continued to strive to offer improved customer services, including an effort to aid medium-sized enterprises in expanding their businesses overseas.

The Company also expanded its sales network and service system by establishing new branches, strengthening its agencies and improving its claim handling system. In addition, the Company strove to diversify its investment portfolio through the expansion of its investment companies overseas, which will also further strengthen its ability to invest its assets. The Company also continued to expand its information systems in order to compete effectively in this age of advanced information and also continued to improve managerial efficiency.

In the overseas insurance business markets, unfavorable business conditions persisted in spite of the better conditions in some areas. The Company continued to pay attention to loss ratio factors and maintained its conservative underwriting policies.

As a result of the Company's efforts to improve its business principally by the means described above, the Company was able to achieve the business results given below which exceed those of the previous business year.

**Israel diplomats fly to Moscow**  
FIVE Israeli diplomats flew to Moscow yesterday as their country's first official representatives in the Soviet Union for 21 years, reports Eric Silver from Jerusalem. They are due to attend sabbath eve service at the main synagogue tonight.

The Soviet Union has had a low-key consular delegation in Tel-Aviv for the past 12 months. Mr Mikhail Gorbachev, the Soviet leader, is eager to foster Arab-Israeli peace negotiations on equal terms with the Americans. He recognises that to do so he must be able to deal with both sides of the conflict. Israel has made full relations a condition for Soviet participation.

The Israeli mission will serve under the umbrella of the Dutch embassy, which has looked after Israel's interests since the Soviet Union severed diplomatic relations at the time of the 1967 war.

## Face-to-face on Angola's border

Anthony Robinson reports from Ruacana, where three armies meet

Two of the most powerful armies ever seen in southern Africa now face each other across the Cunene River which marks the boundary between South African-occupied Namibia (South West Africa) and Angola.

According to South African military intelligence, at least 12,000 Cuban troops, including more than 8,000 men from President Fidel Castro's mechanised 50th Division, are positioned along a 100km front between Ruacana and the Kavango river in the south of Angola's fifth military region.

The nearest Cuban forces are as close as 10km away from the South African Defence Force (SADF) and locally recruited South West Africa Territorial Force (SWATF) troops in their bases on the Namibian side of the river.

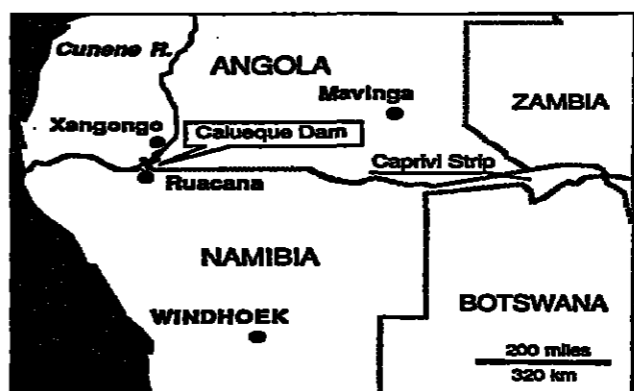
The SADF believes the Cubans are supported by three Angolan army (FAPLA) brigades of between 5,000 and 6,000 men and an estimated 1,000 guerrillas of the South West Africa People's Organisation (SWAPO).

The Cuban reinforcements and their equipment started arriving at southern Angolan ports and airfields last October after the failure of a combined Angolan-Cuban advance on Mavinga, the stronghold of the UNITA movement led by Dr Jonas Savimbi.

Even the South Africans tacitly recognise the Cuban move southwards as a strategic coup which caught them badly off balance. This was underlined last month, when a dozen Cuban-piloted MiG-23 fighters bombed the South African-held Calueque Dam, 25km inside Angola, and killed 11 white soldiers.

The fighters took off from upgraded and tarred forward airfields constructed by the Cubans at Camaha and Xangongo, only a few minutes' flying time from the border.

The Cubans maintain that they were provoked into attacking South African forces by long-range artillery bombardments from Pretoria's G-6 cannon, which have a 40km



Map showing the border area between Angola, Namibia, and South Africa, highlighting the Cunene River, Ruacana, and Mavinga.

range. The South Africans say they did not expect such an attack only hours after the latest round of peace talks, aimed at settlement of a tangled web of regional issues, ended in Cairo.

The upshot was that President P. W. Botha ordered all South African forces to withdraw south of the border to prevent further politically sensitive white losses.

This tactical withdrawal has, however, been accompanied by an unprecedented build-up of men and equipment. South African Mirage and Impala fighters scream out of the heavily defended Oshana airbase, less than 50km from the border, on low-level practice bombing raids.

A steady stream of military hardware - heavy transports, armoured troop carriers, light tanks and other supplies - flows in convoys up the main road from the south and along the railway to the railhead inside the main logistical base at Grootfontein.

In an attempt to disrupt the flow, SWAPO guerrillas recently blew up four bridges carrying this strategic artery over dry streams. The traffic merely slowed down to by-pass the blown bridges.

Next week in Geneva the fourth round of US-sponsored peace talks between Angola, Cuba and South Africa begins, with Soviet officials hovering discreetly in the background.

A top priority must be to keep the two armies apart until agreement can be reached on repatriation of the estimated 54,000 Cuban troops in Angola and the withdrawal of Pretoria's estimated 50,000 troops to beyond the Orange River, which marks the southern border between South Africa and Namibia.

The consensus in Windhoek, the Namibian capital, is that there is no chance of such an agreement before South Africa's municipal elections at the end of October and little chance of resolving the complex side-issues without months, or even years, of patient negotiations.

For the military on both sides, the prospect of protracted talks against the background of such an unprecedented build-up of forces poses enormous dangers - as well as opportunities to sabotage the negotiations.

At the same time, SWAPO guerrillas, who are said to have moved south under the Cuban and FAPLA umbrella, would be well placed to infiltrate across the border.

The view from the Namibian side of the Cunene river is filled with scepticism and suspicion. Yet the knowledge that if fighting resumes it will be on a large scale, with the probability of heavy losses on both sides, is probably the best guarantee against macho adventurism from either side.

## Jordan scraps West Bank plan

By Andrew Gowers, Middle East Editor, in London

JORDAN yesterday scrapped its much-awaited development plan for the Israeli-occupied West Bank in what was officially described as a move to clarify its policy towards the Palestinians.

The official news agency Petra said the decision, taken at a cabinet meeting, conformed with a request from Mr Yassir Arafat, chairman of the Palestine Liberation Organisation, and was designed to end questions about Jordanian policy on the West Bank.

King Hussein is anxious to dispel suggestions that he has territorial ambitions across the River Jordan, and went out of his way at an Arab summit meeting in Algiers last month to deny that he has any desire to represent the people of the West Bank in any future Middle East peace negotiations.

However, the decision also reflected the Jordanian Government's lack of progress in attracting finance for the plan, originally costed at \$1.5bn, and coincided with speculation that Jordan is planning wider steps to dissociate itself from the occupied territories.

Reports from Amman suggest that moves under consideration include the appointment of a new Prime Minister, the dissolution of Parliament, the downgrading of Jordan's Occupied Territories Ministry, and an end to the Government's payment of teachers' and civil servants' salaries in the West Bank.

The aim of such measures would be to signal that Amman wants to redefine its regional role in the light of the eight-month Palestinian uprising against Israeli rule in the occupied territories.

However, it is not yet clear how far the King intends to go. One suggestion is that a recent spate of official leaks along these lines is intended to put pressure on Mr Arafat to mend fences with King Hussein. One suggestion from informed observers is that a recent spate of official leaks along these lines is intended to raise pressure on Mr Arafat to mend fences with King Hussein.

Israeli officials yesterday said Jordan's cancellation was unlikely to have a major impact. AP adds from Amman, Foreign Minister Shimon Peres, who has encouraged Jordan to form a joint negotiating delegation with moderate Palestinians, said he did not see any change in actual policy.

"What he [Hussein] is doing is not a change in policy but a purely technical move," Mr Peres said.

about a fortnight ago but did not materialise because of a hitch over the composition of a committee to be formed for the rehabilitation of the Tiger militants, a substantial amount for which is to be provided by India. No figure has been announced but some reports say this could be as much as \$23.5m.

Indian officials say there is no let-up in the operations against the Tigers despite the negotiations. Mr Douglas noted that under the financial deficit accounting system introduced last year there would be a deficit of about NZ\$1.8bn or 2.2 per cent of GDP.

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The country's foreign exchange and money markets reacted ecstatically to an unexpectedly austere budget at a time when a recessionary environment is causing a large number of corporate failures.

Announcing his fourth budget, Mr Roger Douglas said sales of government assets were expected to rise at least NZ\$2bn (\$1.1m) this financial year and NZ\$8bn eventually.

The catalogue for privatisation includes the Bank of New Zealand, Postbank, New Zealand Post, substantial forestry assets, the property group Government Property Services, the Tourist Hotel Corporation, three international airports,

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## ANNIVERSARY OF SRI LANKA ACCORD

## A heavy toll on both sides

By K. S. Srinivasan in New Delhi

THE twelve-month-long peace-keeping operation by the Indian army in Sri Lanka has been carried out at a heavy cost both in terms of money and casualties.

Apart from salaries and allowances the Government has spent more than rupees 100 (US\$1m) since the agreement between Mr Rajiv Gandhi, India's Prime Minister, and Mr J.R. Jayawardene, Sri Lanka's President, to send the Indian Army to the embattled island was signed a year ago today.

So far, the number of soldiers killed is 880; 3,586 are wounded and 417 missing. Officials in New Delhi estimate 1,500 Tamil Tigers have been killed in around 1,500 and 3,000 wounded. They say about 800 Tiger activists are still fighting. There are now around 40,000 Indian troops in Sri Lanka.

According to senior officials in New Delhi, contacts are still being maintained with the Tiger leadership on a case-by-case and a surrender of arms by the militants. The negotiations are being held by Indian intelligence agencies and representatives of Mr V. Pirabakaran, the leader of the Tamil Tigers. Officials believe an agreement is possible soon.

An agreement was in sight about a fortnight ago but did not materialise because of a hitch over the composition of a committee to be formed for the rehabilitation of the Tiger militants, a substantial amount for which is to be provided by India. No figure has been announced but some reports say this could be as much as \$23.5m.

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NEW ZEALAND'S Finance Minister announced an accelerated

## AMERICAN NEWS

# Broker fired in US insider trading probe

By James Buchanan in New York

WILLIAM DILLON, a junior broker at the giant Merrill Lynch securities firm, has been fired after an investigation into alleged trading in stocks to be tipped in Business Week, the big New York-based business and financial magazine.

The dismissal of Mr Dillon, 33, who was fired on Wednesday after two days of questioning by Merrill Lynch officials, is the first result of a widening investigation involving the magazine, the main US stock exchanges and the Securities and Exchange Commission.

According to the investigation, Mr Dillon, who joined the firm at its New London, Connecticut, office in 1985, was allegedly tipped off about the contents of Business Week's highly-regarded weekly investment column, *Inside Wall Street*. There has been speculation that he was tipped off by workers at a nearby printing plant which produces Business Week every Wednesday night.

It was not clear yesterday if other Merrill Lynch brokers were under suspicion. R R Donnelley, the big Chicago printer that turns out Business Week at the Connecticut plant and a second in California, said it had looked into security and turned up nothing amiss.

Business Week, the flagship publication of the McGraw-Hill

group, launched its investigation when Mr Gene Marcial, the editor of the column, noted suspicious pre-publication trading in stocks he tipped in his column. The column retails rumours and speculation about takeovers and other price-sensitive corporate transactions.

In some stocks tipped by Mr Marcial, there was dramatic trading activity on the Thursday before the magazine's Friday publication. Gradco, a paper sorting company praised in the issue that reached newsstands on July 15, rose 11.4 per cent on more than four times its normal volume that Thursday.

A report last Friday about the Business Week investigation set off the alarm at Merrill Lynch, said Mr William Clark of the firm. He said that its compliance officers, using a computerised system that records all trades by Merrill Lynch employees over 40 days, turned up some fishy Thursday trades in its New London office.

This is the second insider-trading case to touch a respected US business publication. In 1985, Mr Foster Winans, a Wall Street Journal reporter, was convicted for selling advance notice of stocks mentioned in the paper's *Heard on the Street* column.

# Brazil opts for a costly brave new world

Ivo Dawanay reports on an impractical and almost unworkable draft constitution

THE fierce passions unleashed in the clash this week between Brazil's constitution-drafting legislature and President José Sarney now look set to subside. But the argument will not.

For just as Mr Sarney attempted in a nationwide broadcast to set the broadest context for a debate on the coherence and cost of Congress's 321-article draft, Mr Ulysses Guimarães, his veteran rival in the constitutional assembly, has deftly evaded it.

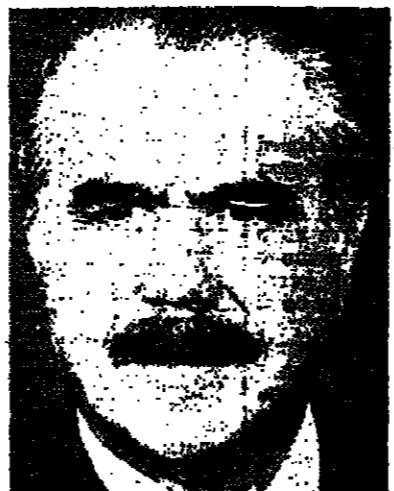
Instead of addressing the President's questions about the cost of the proposals, Mr Guimarães chose in an angry reply to deal only with the micro-case for the devolution of power from federal to state and municipal authorities.

He was backed by a succession of fiery speeches from congressmen who chose to portray Mr Sarney's intervention as a last bid by the *ancien régime* to defend its vested interest against the relentless tide of democratic progress. That is an injustice. The truth is that Mr Sarney, not before time, has confirmed what most intelligent Brazilian opinion has long feared - the draft constitution is a mess.

To back up his thesis, the President produced a formidable array of examples, not least the astonishing but credible claim that the document's provisions will cost \$12.6bn in additional expenditure - double Brazil's annual income tax revenues.

To the left, however, both the figures and the assertion that the draft will render the country "ungovernable" seems like exaggerated alarmism and yet another attempt at political brinkmanship.

Mr Sarney's much-publicised meeting last weekend with military ministers carried, opponents alleged, an implicit threat of intervention in the democratic



José Sarney: questions of cost



Ulysses Guimarães: angry reply

process. In much the same way last March, they claimed, he succeeded in frightening Congress into voting him a five-year term of office.

Furthermore, they say, his warning that the constitution will lead to higher taxes, unemployment, hyperinflation and the throttling of investment is merely a description of what has already happened under his leadership.

"Sarney is preparing his excuses," said one opposition party organiser this week. "In future, the economic disaster will be Congress's fault, not his."

All this carries a certain convincing resonance. But equally, so does Mr Sarney's prediction of doom and despair. Unfortunately, the President looks destined to be ignored.

The briefest perusal of the draft - painstakingly drawn up over 18 months by Congress sitting as a Constitutional Assembly - suggests that it is both

impractical and almost unworkable. It avoids tackling issues such as the division of power and checks and balances and instead paints a picture of Utopia, ignoring entirely how it is to be financed by Brazil's empty coffers.

Few issues are too small not to merit the drafters' attention. Generous pension and maternity rights, job security for public servants, limits on shift working, the vote at 16, curbs on foreign investment in a country crying out for capital, ceilings on interest charges and the abolition of the debts of various interest groups are just a few examples of this brave new Brazilian world.

Morover, the document also, with a wave of a wand, cancels all decrees laws - the main instrument of government during 21 years of military rule - that were not debated by Congress. This alone will do much to feed the confusion which is certain to emerge when

the drafting of enabling legislation begins.

So what happens next? Hopes among leaders of the right-wing Liberal Front Party (PFL) that the whole draft would be thrown out collapsed on Wednesday night when the document was approved as ready for final amendments.

These will now be taken. But changes are not expected, although some controversial elements will be removed through inter-party agreements. This is because approval of amendments requires a 260-vote majority.

With politicians drifting away to municipal election campaigns, a quorum is already proving hard to establish. To deliver his cherished infant, Mr Guimarães, the veteran president of Congress, must hurry. A definitive version, with many warts, is expected in early September.

In the meantime, the question absorbing political analysts is how much this mess, Brazilian constitutions have a short life - there have been eight since independence in 1822.

Furthermore, despite the solemnity with which this version is being constructed, the country's traditional pragmatism is likely to iron out or simply ignore many of the worst anomalies and impracticalities.

Perhaps the most disturbing revelation highlighted by the drafting process is how far removed the legislators appear to be from the acute problems facing Brazil. Hardly the least of these is how to create growth to finance ambitious social programmes.

President Sarney emphasised this in his broadcast on Monday. But then, as Mr Roberto Manna of the São Paulo employers' federation pointed out, he should have voiced these worries in the months when he appeared concerned only with winning a five-year term.

# Garcia calls for tighter laws on terrorism

By Barbara Durr in Lima

PRESIDENT Alan García yesterday proposed tough action against Peru's Maoist Sendero Luminoso guerrillas.

Speaking on the third anniversary of coming to office, he pleaded for national unity against terrorism and for economic co-operation.

He said the eight-year war against the guerrillas had cost more than 400 lives. He proposed toughening of anti-terrorism laws, making membership or association with subversive groups punishable.

Mr García said he wanted those "who place a bomb or distribute leaflets" to be as guilty as those who commit acts of terrorism. He asked that those found with arms or explosives be charged with terrorism and that investigation of terrorist crimes be in the hands of the police rather than the judiciary.

In addition, he called for the setting up of special tribunals for terrorism. Suggesting a political realignment to coincide with his new, tougher stance, he praised both the military and police for their fight against insurgency.

On the economy, Mr García said 1988 was going to be a difficult year. He pointed to inflation, predicted to soar to more than 400 per cent this year, and an acute dollar shortage as the principal problems. But he said increased export income this year from mining would help.

He admitted that his proposal to nationalise banks and financial institutions a year ago had contributed to the country's economic problems, but said he was unrepentant. He said the proposal "was and is necessary" to break the grip of three top economic groups.

Despite his obstinacy on bank nationalisation, the President asked the business community to join forces with the Government to revive the economy.

Mr García also announced a reform of the national social security system. He is to submit legislation to allow labour unions or individual workers to opt out of the state-owned Instituto de Seguro Social and seek private insurance.

# Poll puts Dukakis 17 points ahead of Bush

MICHAEL DUKAKIS, the Democratic Presidential candidate, has extended his lead over George Bush, his Republican opponent, to 17 percentage points, Renter reports from Washington.

According to a Wall Street Journal/NBC poll taken after the Democratic Convention and published yesterday, Mr Dukakis has a 51 to 34 per cent lead over Mr Bush.

Mr Dukakis had big leads among two important groups: a four-to-one lead over Mr Bush among Democrats who voted for President Reagan four years ago, and a 56-to-26 per cent lead among women.

In the Wall Street Journal/

NBC poll, 54 per cent approved of Mr Dukakis's choice of conservative Texas Senator Lloyd Bentsen as his running mate; 19 per cent disapproved.

Mr Bush, who will be nominated formally in New Orleans at the Republican convention on August 15-18, has embarked on the process of selecting his vice-presidential candidate. Yesterday, a conservative Republican Senator Gordon Humphrey of New Hampshire said he was founding a group called the Coalition for a Winning Ticket to pressure Mr Bush to pick a conservative, or risk losing the November 8 election to Mr Dukakis.

The Vice-President, despite his claims to be conservative,

is viewed suspiciously by members of the right who see him as part of the party's moderate Eastern establishment.

Prominent conservatives among those mentioned as running mates include Senate Republican leader Robert Dole, former United Nations Ambassador Jeane Kirkpatrick, and Representative Jack Kemp.

Also in the speculation are Dole's wife Elizabeth, former transportation secretary; Kansas Senator Nancy Kassebaum; former Tennessee Governor Lamar Alexander; New Jersey Governor Thomas Kean; Illinois Governor James Thompson; and, despite his proclaimed lack of interest, California Governor George Deukmejian.



Michael Dukakis: big lead among important groups

# Argentina resumes loan talks

By Gary Mead in Buenos Aires

TWO senior Argentine government officials have arrived in Washington to resume discussions on the country's foreign debt interest payments, which this year will be almost \$5bn.

Mr Mario Brodersohn, the Treasury Secretary, and Mr Luis Machuca, the central bank president, hope to reach agreement with the International Monetary Fund for a new stand-by loan of \$1.5bn, including \$400m outstanding from a previous loan.

According to the Argentine officials they would regard a new loan as sufficient to cover interest payments and fiscal deficit requirements up to the

end of 1989, when President Raúl Alfonsín's administration leaves office. The two sides have already met twice this month and, according to Mr Machuca are "very close" to an agreement.

However, 65 per cent of Argentina's \$650m foreign debt is in the hands of 330 commercial banks. The Argentine delegation intends talking to them too, with the hope of obtaining by September \$20m more.

While the IMF will be considering Argentina's failure to adhere to its year-old agreement to hold its fiscal deficit to 2 per cent of GDP for the second half of 1987 and cut inflation, commercial banks are

pondering Argentina's increasing tendency to fall into arrears on its interest payments. In June, Argentina came within six days of missing the 90-day deadline imposed by US banks for interest payments. After the deadline, US banks must place debt on a non-performing basis.

A similar deadline will arrive on August 6, when \$400m of interest in arrears from May ought to be paid. Argentina's foreign currency reserves are officially described as "very low". The talks therefore have a degree of urgency if bankers are to avoid another nervous day on August 6.

## WORLD TRADE NEWS

# Hyundai negotiates with workers after price shock

By Maggie Ford in Seoul

HYUNDAI HEAVY Industries, the South Korean shipbuilder, expressed shock and astonishment yesterday at the actions of World-Wide Shipping, the Hong Kong group headed by Sir Y.K. Pao. It has accused Hyundai of unbusinesslike methods in attempts to renegotiate the price of an order.

The renegotiation, under which Hyundai is asking for the price of the other three 250-dwt very large crude carriers to be increased to \$195m, follows action by Hyundai's workers.

Mr S.H. Hwang, head of ship sales, explained yesterday that

the company had told workers during annual wage negotiations that it would make a loss this year and that bonuses could not be paid.

The workers then decided to suspend work on six ships ordered under unprofitable terms, including the three for World-Wide, and to concentrate on orders which would help the company's balance sheet. Contractors' names for three ships were not named.

Mr Hwang said World-Wide was aware that delicate negotiations with the union were continuing and said he could not understand the company's

extreme action in making accusations against Hyundai.

Apart from the union problem, the return in the shipping market and the appreciation of the won against the dollar since 1986, when the order was placed, justified new talks on the contract terms, he said.

Mr Hwang said he would try to "recovered from the shock" of World-Wide's accusations.

He said he was confident that a settlement would be reached with the workers and that delivery dates would be met.

# Korea yard may haggle over other ship orders

By Kevin Brown, Transport Correspondent

THE CONTRACT dispute between Hyundai and World-Wide Shipping raises the possibility that the South Korean shipyard may try to renegotiate some of the other 45 orders on its books.

Many of these were placed at about the same time as the World-Wide order, when prices were near the bottom of a long decline caused by shipbuilding over-capacity.

The ships ordered by World-Wide are very large crude oil carriers, each of 254,000 tons deadweight. The first is due for delivery this month, the second in October, and the last in February.

Hyundai has a number of orders for similar ships, placed mostly by European and Far Eastern shipowners. However, there was no evidence yesterday that the yard was seeking to increase agreed prices.

Mr Luc Bras, technical director of Petrofina, the Belgian shipping company, said he had been assured by Hyundai that there would be no difficulties over the completion of two 254,000 dwt tankers due in September and January.

A.P. Moller, the Danish tanker operator, said it had been given similar assurances about four 254,000 dwt VLCCs due for delivery between February and October next year.

However, other European shipping executives said privately that there was little doubt that most of the South Korean shipyards were in serious financial difficulties.

The problems being suffered by the yards are a consequence of a rapid increase in shipbuilding capacity during the 1980s as South Korea became the world's second largest shipbuilder, after Japan.

South Korea had 30 per cent of the world shipbuilding market last year, compared with about 46 per cent for Japan, but its aggressive price-cutting helped to force down prices to a level where almost all yards were losing money.

Prices have begun to rise, however, following extensive scrapping of older tonnage, which has virtually eliminated overcapacity of about 100m tons in the world tanker fleet.

# ECGD suffers a humiliating blow

Peter Montagnon on parliamentary criticism of a back-up body

BRITAIN'S Export Credits Guarantee Department was lying low yesterday in the wake of the outspoken criticisms levelled at it by the House of Commons Public Accounts Committee (PAC).

In keeping with parliamentary practice, it will be up to the Treasury to reply to the PAC report and that will happen only when Parliament reconvenes in the autumn.

Yet there is little doubt that the PAC has delivered a humiliating blow against an organisation that in recent months has been subject to increasing criticism in Parliament and parts of Whitehall for its growing recourse to borrowing from the public purse.

Largely as a result of a steep increase in the payment of claims against countries with debt difficulties, its borrowing has grown steadily to total \$1.7bn at the end of the last financial year, compared with just \$552m two years earlier.

The PAC report is larded with criticism - about ECGD's accounting policies, the level of its provisions against possible losses on sovereign debt, the adequacy of its arrangements to counter fraud and above all, about the level of borrowing from central government, now forecast to reach a peak of some £3.5bn by 1990.

As for the borrowings, they are the result of claims paid and not yet recovered, they contain the seeds of a potential loss which could result in substantial cost to the taxpayer, the report suggests.

Expectations that the PAC would produce a critical report had been running high since March, when it subjected the Malcolm Stephens, the ECGD

chief executive, to a particularly hostile round of questioning.

But while they acknowledge the validity of some of the PAC criticisms, exporters say they are also worried that it has gone too far.

"No matter how ECGD present their accounts they are not going to look good. Perhaps they need more help from the

ECGD SHOT itself in the foot with its decision to seek independent advice on its loss provisions from accountants Peat Marwick McInch, after its latest accounts were qualified by the National Audit Office, Peter Montagnon writes.

ECGD officials had hoped that the Peat Marwick report would endorse its policy of not following the Bank of England matrix for commercial banks in determining an appropriate level of provisions on sovereign debt.

But the Peat Marwick report published by the PAC yesterday came down in favour of using the Bank of England's matrix as the starting point

for calculating ECGD provisions. "The PAC confirmed in its report that ECGD was to modify both its accounting practice and its loss provisions," said Mr Montagnon.

But Mr Montagnon dismissed the PAC's argument that it was not a bank and should not be obliged to use a formula devised for banks in calculating its provisions. There was "little to choose" between banks and export credit agencies when both were having to account for rescheduled debt.

"In our opinion, the Bank's matrix is more objective than ECGD's existing methodology," Peat Marwick said. If the matrix had been used in compiling ECGD's latest set of accounts, its provisions would have been up to almost twice the total of £1.1bn posted.

And its approach to loan-loss provisions to give a better picture of its financial position in the future, but it had little to say on how ECGD should deal with its government overdraft.

In the last couple of years ECGD has transformed the way in which it handles short-term insurance applications so that 60 per cent of enquiries are answered within 24 hours. This is now starting to produce an increase in turnover after several years of decline.

Its executives believe the seeds are being sown for a revitalisation of the organisation which in time will enable it to overcome its problems. However, the business of the PAC, ECGD clearly faces a difficult recovery process.

The already intense competition it faces from the private sector is likely to grow with the launch of the EC single market in 1992 which will open up new possibilities in the UK for some continental export credit agencies.

ECGD is rare among export credit agencies in that it is expected by the Government both to support exports and to break even over time. Most of its foreign counterparts do not have to make loan-loss provisions.

But, say exporters, it is now being penalised because in trying to support exports it has run up against a period of losses. Such criticism as embodied in the PAC report could undermine its very existence because its twin objectives of supporting exports and breaking even cannot always be compatible.

Mr Alan Clark, the Trade Minister and a keen supporter of the ECGD, seemed to sense the trend of this debate in a speech as long as March, when he the ECGD "undependable." Without it, he said, British business would have had to absorb about \$3bn worth of unpaid bills resulting from the debt crisis.

# HK shippers suspect Korean ploy to improve contract

By David Dodwell in Hong Kong

"IT IS easy to understand why World-Wide is so cross," commented one Hong Kong-based shipping analyst on the row this week over efforts by Hyundai, the Korean shipbuilder, to renegotiate a \$120m contract for oil tankers. "World-Wide's timing has always been very good - both buying and selling vessels - and it must be infuriating to have a shipbuilder attempting to deny you the benefits of having read the market right."

At the centre of the dispute are three 250,000-dwt very large crude carriers, ordered late in 1986 by World-Wide Shipping, the Hong Kong-based shipping group controlled by Sir Y.K. Pao. At that time, Korean shipyards, like others across the world, were hard-pressed for orders, and had offered what even World-Wide acknowledges was "a very attractive price" to build the three ships.

However, in two telexes sent to World-Wide in the past six weeks (the latest on July 14), Hyundai said it had halted work on the third VLCC and was asking for an "adjustment" of the \$40m contract price for the two vessels now nearing completion.

The telexes, from Mr Sung-hyuk Hwang, Hyundai Heavy Industries' senior vice-president, blamed "drastic changes of political, economical and

social environments" that had raised labour costs by 50 per cent, had led to a 20 per cent rise in the international exchange value of the Korean currency, and had resulted in increases in materials prices.

Mr Hwang said that, because of these "uncontrollable changes", the building budgets for the vessels had been exhausted. He said work on the third of the VLCCs had ended, and offered to return to World-Wide its advance payment for the vessel.

Today, such vessels would probably cost about \$65m to build. However, because they are among the first VLCCs to be built in more than 10 years, there is no second-hand market by which to set a price for them. Even so, it appears clear that Hyundai faces losses under the terms of the existing contracts.

Most shipping operators see Hyundai's move as a ploy to negotiate better terms now that world shipping markets are more buoyant.

World-Wide, which was in 1979 the world's largest shipping group, with 202 vessels amounting to more than 20m dwt, was among a small group of operators to emerge virtually unscathed from the crisis that swept the industry in 1986. This was largely because it anticipated the slump in busi-

ness by slashing its fleet to 56 ships and less than 10m dwt.

Late in 1986, when most international ship operators were lobbying for a Korean surplus of capacity, World-Wide found itself ready to build up its fleet at bargain prices.

Dr Schmen said yesterday: "In 1986, the market was still weak, but we felt it was turning round. We had scrapped 18 VLCCs and, as predominantly VLCC operator, we had to look at rejuvenation and replacement."

The group broke its close links with Japanese shipbuilders and placed two major orders in Korea - the one now in dispute with Hyundai and a second, also for three oil tankers, with Daewoo.

Shipping analysts in Hong Kong suggest that World-Wide has no choice but to pursue legal action to resolve its dispute. They argue that this may be Hyundai's intention. Settlement of the dispute would have to be sought in Korean courts, and the shipbuilder would probably win concessions.

# Brazilian charter 'alarms' EC

By Ivo Dawanay in Rio de Janeiro

THE EUROPEAN Community is alarmed at the implicit hostility to foreign capital investments in Brazil's draft constitution, which could worsen the country's relations with the trading bloc.

That was the blunt message of Mr Karl-Heinz Narjes, EC science and industry commissioner, to the Brazilian press at the start of a 10-day official visit to the country.

He said that, as drafted so far, the putative charter's economic order chapter, which

distinguishes between national and foreign companies, represented a "discriminatory act" against the rest of the world.

"This we cannot accept without question and without reaction, which is now beginning to be discussed in the Community," he said.

The commissioner, who was due to meet President José Sarney in Brasília yesterday, added that the country's failure to recognise intellectual property rights was also concerning the EC. Current trends

in Brazil appeared to be contrary to global moves towards decentralisation, deregulation and privatisation, he claimed.

"Brazil is opting for self-isolation. If it happens, this will represent a significant change in the quality of its relations with Europe," he warned.

Mr Narjes's visit, which includes meetings with several ministers and industrial chiefs, is to examine progress by Brazil, Argentina and Uruguay in creating their own economic community.

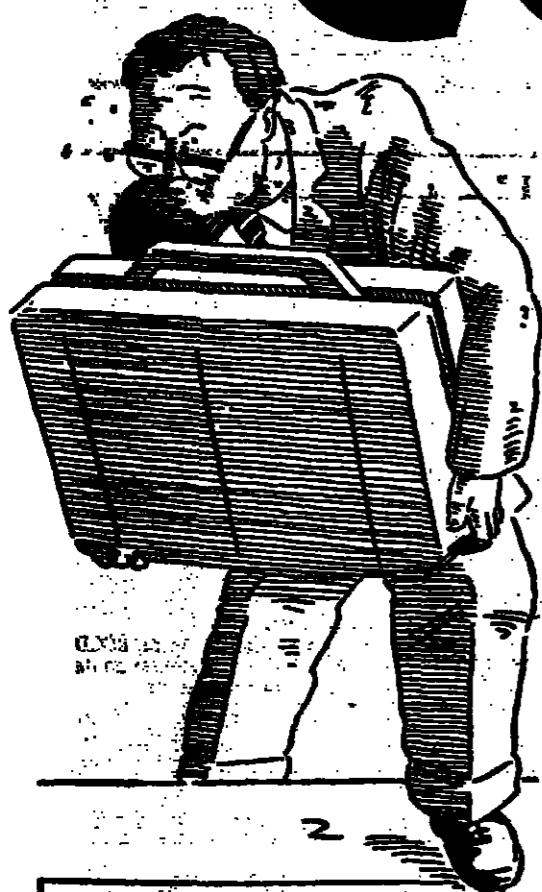
# R-R engines for Ansett's Boeing 757s

By Michael Donna, Aerospace Correspondent

BOLLS-ROYCE will gain up to \$70m of new business in providing its RB-211-535B engines for six Boeing 757 airliners ordered by Ansett of Australia. The six aircraft were held by Ansett on option.

The deal, announced yesterday, confirms there is a re-equipment tide running in favour of the Boeing 757 among airlines.

# THERE ARE LIES, DAMNED LIES AND STATISTICS ABOUT PORTABLE COMPUTERS.



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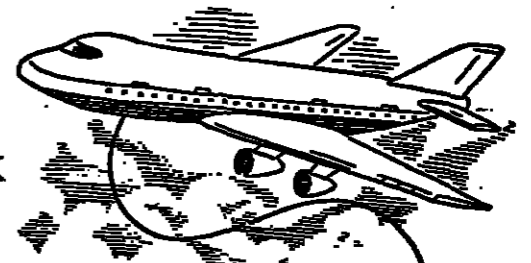
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## UK NEWS

## Export credits body challenged over accounting

By Peter Montagnon, World Trade Editor

THE EXPORT Credits Guarantee Department (ECGD) - Britain's official export credit insurer - over-stated its results by reporting a trading surplus of £175m in its latest accounts for 1986-87 and should increase its provisions against losses on sovereign debt, the House of Commons Public Accounts Committee said yesterday.

Its report, which pointedly ignores the efforts made by the ECGD to introduce more profitable underwriting procedures and increase business turnover, raises new doubts about the department's long-term financial viability.

The committee said that it was also concerned about the department's mounting borrowings from the Exchequer which could rise to as much as £1.5bn by 1993.

Exporters say that the ECGD, which has been struggling with an upsurge in claim payments as a result of the developing country debt crisis, has faced an increasing groundswell of criticism in Parliament and parts of Whitehall as its borrowings from central government rose to £1.7bn at the end of March.

"We are not entirely reassured by the department's statement that no losses will be involved because interest is charged on the balance outstanding... The trading account may be unable to stand the heavy interest charges that will fall upon it."

It said the ECGD should have applied Bank of England guidelines in establishing provisions against loss on its exposure to developing countries. This would have substantially increased the £540m allocation to provisions in its 1986-87 financial year.

The ECGD had received such advice from accountants PricewaterhouseCoopers, from whom it had itself commissioned a report after its latest accounts were qualified by the National Audit Office because of its provisioning policy, the committee said.

"We do not accept that a trading surplus of £175m for 1986-87 could be regarded as a true and fair view of the results of ECGD's trading activities in that year. And we do not regard it as sufficient correction of the position for ECGD to qualify this reported surplus by seeking to explain in notes to the accounts how it had been calculated."

ECGD was in the process of introducing new accounting standards, it said.

The committee also said the ECGD, which is now paying out some £800m a year in claims, should examine the possibility of stepping up the resources applied to the prevention of fraud. The ECGD declined to comment on the PAC report to which the Government will reply in due course through the Treasury. Humiliating blow, Page 4

## Cordless phone operators set for licence battle

By Hugo Dixon

A MAJOR battle for licences to operate the next generation of cordless telephones is likely after Lord Young, Secretary of State for Trade and Industry, said yesterday that the Government had decided to award between two and four licences to operate the service.

The phones, sometimes called telepoint phones, are expected to revolutionise telephone in the 1990s. The cost is expected to be about £150, compared with over £1,000 for cellular phones.

Cordless phones, however, are more restricted than the cellular variety. They can only make outgoing telephone calls and must be used close to base stations, which will be set up around the country.

Lord Young, who gave details of the scheme in a parliamentary written answer, made clear that British Telecom and Mercury Communications, the UK's two main-stream telephone operators, would not automatically receive licences.

The other telecommunications companies who are interested in the service are: Auto-phon, Ferranti, GEC, GEC Plessey Telecommunications, Libera, Mullard, Multitone, Orbitel, Philips, Plessey, Shave, Racal and STC.

## Central funding of health must continue, says MPs committee

By Alan Pike, Social Affairs Correspondent

CONSERVATIVE-dominated House of Commons Social Services Committee yesterday rejected many of the ideas for reforming the National Health Service under consideration by the Government.

In a unanimous report on the NHS's future, the committee said that the strengths of the service "should not be cast aside in a short-term effort to remedy some of its weaknesses."

The committee examined possible reforms being considered by the health care review headed by Mrs Margaret Thatcher, the Prime Minister.

"Given the absence of any means of measuring their effect in practice, we have of necessity considered these solely on the basis of their own internal logic. On this basis, our investigations have shown that certain major drawbacks..."

The British Medical Association, National Association of Health Authorities and health service unions all welcomed the committee's support for maintaining a centrally-funded NHS.

The report says central funding is bound to continue as the principal source of finance for health services. There are strong arguments in favour of the present system.

## English China Clays faces inquiry

By David Churchill and Clay Harris

THE OFFICE of Fair Trading is carrying out a preliminary investigation of English China Clays, the industrial, minerals and construction group, to see if a monopolies inquiry needs to be undertaken by the Monopolies and Mergers Commission.

The OFT confirmed yesterday that it had written to the company and others in the china clay industry seeking certain financial and market information.

It stressed that this was a routine investigation to determine the facts of the market and did not mean that a monopolies inquiry would automatically be carried out.

English China Clays, which is one of the leading UK suppliers of aggregates, clays and road surfacing materials, acknowledged yesterday that it had received a letter from the OFT and was in the process of responding.

## British industry triggers £8.5bn investment boom

Simon Holberton assesses the biggest spending programme by companies for 20 years

THE HEADLINES have been about British consumers' profligacy, surges in credit, rising interest rates, and the strong pound. But arguably something more important and long-term is happening in Britain: an investment boom is under way.

This year companies are planning to invest more than at any other time in the past 20 years, surpassing the last peak set in 1979. The best guess is that manufacturers will spend more than £8.5bn in 1988 prices, a measure which strips out the effects of inflation.

Economists agree that the surge in the amount spent on plant and machinery currently in train will provide the setting for further sustained rises in output.

For the Government's supporters in the City of London and Westminster it amounts to a continuation of the "supply-side miracle" and a vindication of the Government's economic policies. Critics might argue that it has taken a long time to get back the levels of investment recorded in the late 1970s.

In the short-term, however, economists give a warning that the rise in investment is exacerbating Britain's balance of payments deficit because much of the new machinery being purchased comes from abroad, notably West Germany. Contrary to the Treasury, they also say that when the surge in investment slows, as it seems likely to do, there may not be a significant improvement in the balance of payments.

However, a moderation in the rate of growth of investment may not mean that the current expansion of the economy is peaking. Many economists believe it is no longer meaningful to talk of a business cycle, although a surge in investment during the 1980s until the 1970s was often seen as a peak in that cycle.

Mr Ian Harwood, UK economist at Warburg Securities says: "I don't take the view that we've got a cycle in the UK like we had. The expansion of the economy has been going on a lot longer than anyone had thought possible."

"At some point the economy has to slow down, but if, as we think, it's to a level of 2½ per cent to 3 per cent, then that does not mean a recession. The early years of this decade were extremely difficult for manufacturing industry and investment. They followed a long, troubled period for the British economy and coincided with the blow dealt to the UK (and world economy) by the second oil shock, and by policies pursued by the Government itself which stressed a strong pound and tight monetary policy."

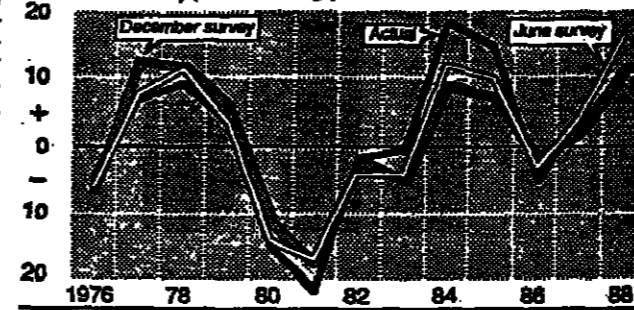
Changes to company tax law in 1984 further clouded the investment outlook. They led first to an acceleration in investment as companies brought forward plans to take advantage of investment allowances, and secondly to a slowing as the allowances were used up.

Growth was given a kick-start by the depreciation of sterling after the oil price fell sharply in 1986. A period of sustained and rapid economic expansion ensued and continues today, led by buoyant consumer demand.

In a textbook economy, investment lags a rise in demand, as companies wait to see if the higher levels of demand will be sustained. In the first instance a surge in demand tends to be taken up by a combination of higher employment and greater use of a company's existing plant and machinery.

### Investment in UK manufacturing industry

DTI Interim survey (Annual % change)



Source: DTI. Note: The graph plots the DTI's investment intentions survey against actual investment in manufacturing. The December survey is for the forthcoming year over the current year; the June survey is for the current year over the previous year.

Profits have been rising at historically high rates. Before tax profits rose by 22 per cent in 1986, 17 per cent in 1987, and City analysts expect them to rise by about 12 per cent this year.

Forecasting investment behaviour is, however, difficult. Investment is sensitive to business confidence, as John Maynard Keynes said, "animal spirits", or optimism in economic model and then attempting to predict it is next to impossible.

The Department of Trade and Industry has, however, been accurate in forecasting future trends in investment through its half-yearly surveys of investment intentions. It asks about 1,000 large companies, which represent a substantial cross-section of the wider quarterly capital expenditure survey population, where investment plans for up to two years ahead.

The last survey was published in June and pointed to a rise in manufacturing investment, including leased assets, of 16 per cent this year. That compared with an initial forecast of 11 per cent derived by the DTI from its December survey. Last month's survey indicates that manufacturing investment will rise further in 1989, although at a slower rate.

The CBI survey identifies chemicals and metals manufacturing among sectors expected to increase their investment strongly. Capital goods and some consumer goods industries expect lower levels of investment "suggesting a steady rate of replacement rather than expansion."

Industry is investing primarily to improve efficiency, the CBI survey suggests, but those companies citing expansion of capacity remained at its highest level since the CBI first asked the question in 1979.

There are also signs that replacement of existing capital equipment for new is growing. It is difficult to discern the proportion of investment devoted to new equipment as opposed to new buildings with any precision, but the CBI's latest survey indicates that the rate of growth of construction for manufacturing is flagging while that devoted to equipment has maintained its momentum.

Mr David Walton, international economist at Goldman Sachs, said: "Provided earnings continue to grow and there are more tax cuts in the offing there is little reason to think companies will stop investing. It is not as though we are heading towards a recession."

He questions, however, whether the current surge in investment will raise the nation's stock of capital sufficiently to allow domestic production to meet domestic demand, and thus have a significant impact on the trade gap.

Welcome though the planned rise in investment is for Britain's future growth potential, it does not necessarily preclude the end of the Government's problems with the balance of payments.

## Ashdown wins leadership poll

MR PADDY ASHDOWN yesterday secured an overwhelming victory in the fight to become the first elected leader of the Social and Liberal Democrats and at once pledged his party to build "a decent, effective and responsible" alternative to Thatcherism.

Mr Ashdown, aged 47, who entered the House of Commons in 1983 as a Liberal MP, scored a resounding win over his only rival, Mr Alan Beith, the former deputy leader of the Liberal Party.

Of the 57,603 party members who took part in the leadership election, Mr Ashdown took 41,401 votes against just 16,202 for Mr Beith.

The contest produced a high turnout, with 72 per cent of the party's 80,000 members taking part. The result was welcomed by Dr David Owen, the leader of the continuing SDP.



Paddy Ashdown celebrates victory with his wife Jane

## Marriott to put £100m into budget hotel chain

Marriott, US hotels group, plans to invest £100m in the UK over the next five years on a chain of budget-priced hotels with the name Courtyard, the company's latest move into the fast-growing UK market for budget hotels.

The first will open next year at Portsmouth and the second in London's Docklands. Fifteen are planned by the early 1990s, creating up to 1,500 jobs.

The Government has confirmed its intention to privatise most of the Crown Suppliers, the government central purchasing agency.

A 7,000-tonne structural steel contract for Canary Wharf, one of London's most prestigious office schemes, has been awarded to Victor Buyc, Belgian fabricator.

The Government has reduced extra cash for Belfast aircraft makers Short Brothers, which is earmarked for privatisation.

A wild cat, larger than a domestic cat and about the size of a fox, killed by a car on Hayling Island in Hampshire, has animal experts baffled as to its origin.

Forty alleged victims of benzene-related drug Oprex, disappointed with the assessed compensation offered by Eli Lilly, the US drug company, have had their cases decided by arbitration in the High Court. Some awards were increased by between 20 and 50 per cent.

Sheffield Council is to axe 1,000 jobs next year to save £20m. About 2,000 jobs have already been lost this year.

Isolation of AIDS victims and prejudice could drive the threat underground, said Dr Jonathan Mann, director of the World Health Organisation's global AIDS programme.

## Saunders loses challenge on fraud office powers

By Raymond Hughes, Law Courts Correspondent

MR ERNEST SAUNDERS, the former chairman of Guinness who faces 42 criminal charges in the Guinness affair, has fallen in a High Court challenge of the powers of the Serious Fraud Office which is handling the prosecution.

Mr Saunders had complained about a notice sent by the SFO requiring Mr Sean Dowling, a Guinness director, to hand over affidavits and other documents.

They included evidence by Mr Saunders and former Guinness director Mr Tom Ward in the civil action in which Guinness is seeking to recover £5.2m paid by the company to Mr Ward.

Two of the charges Mr Saunders faces in the criminal proceedings relate to that payment.

Mr Saunders argued that because he had been compelled in the civil proceedings to disclose his defence to the criminal charges, the notice breached his constitutional right not to incriminate himself.

He asked the court to quash the notice on the ground that the SFO was exceeding its powers under the 1987 Criminal Justice Act, and to grant injunctions stopping it serving any similar notices.

Mr Justice McNeill said that the Act empowered the SFO to investigate "any suspected offence." Mr Saunders argued that once a person under investigation had been charged, he was no longer the subject of a suspected offence. Therefore the SFO's power to investigate came to an end.

Mr Justice McNeill said that it could not be said that the police must stop investigating an offence once an offender was charged. Charging a suspect did not bring an end to the investigation powers given by the Act.

The judge said the notice served on Mr Dowling had lapsed, although further notices might be issued by the SFO.

Also, he said, Guinness had given an undertaking in the civil proceedings not to disclose any information or documents obtained from Mr Saunders. As long as that undertaking remained Guinness had a reasonable excuse not to comply with any SFO notice.

If Guinness were released from its undertaking, and further notices were issued by the SFO, there would be a point to be argued on the disclosure of documents.

Mr Justice McNeill said that the Act did not exclude access to self-incriminating material, at least in the possession of a third party. Indeed, it might be said that one of the purposes of the Act was to secure disclosure of such material.

However, said Mr Justice McNeill: "It is clearly arguable that a person under investigation should not be compelled, for purposes which might lead to criminal proceedings against him, to disclose that which under civil process he has been obliged to disclose and which is or might be self-incriminating."

## DTI to probe share deals in engineering groups

By Andrew Hill

THE Department of Trade and Industry is to investigate dealings in the shares of James Neil Holdings, Francis Industries and F.H. Lloyd Holdings.

Francis Industries is owned by Suter, the engineering conglomerate headed by Mr David Abel. F.H. Lloyd is a foundries and engineering company which last summer merged with Triplex to form Triplex Lloyd.

Earlier this year the Stock Exchange investigated dealings in the shares of James Neil by Suter. Two members of the Stock Exchange's surveillance

department visited the offices of James Neil, the Sheffield-based tools manufacturer, just after Christmas and examined the company's share register.

The DTI said it appointed two inspectors, Mr David Evans, a barrister, and Mr Brian Worth, of chartered accountants Clark Whitehall a week ago.

In particular the inspectors will investigate the possibility that investors formed "concert parties" combining their shareholdings to influence or control the company.

## City's investor watchdog counts the cost of financial rescue

Nick Bunker and Eric Short look at the causes of Fimbra's budgeting crisis and the lessons to be heeded

THERE HAVE been many technical hitches in the process of giving the UK a new investor protection system.

But yesterday's news that 50 life assurance companies have had to gallop to the financial rescue of Fimbra - one of the industry's new watchdog bodies - is potentially one of the most embarrassing.

The Financial Intermediaries, Managers and Brokers Regulatory Association has the job of policing at least 9,500 businesses - many of them very small - which sell invest-

ment products. But ironically enough, Fimbra's own finances have really never looked very solid - a perception confirmed by the news that the life companies have felt obliged to give it a cash injection of £1m.

When Fimbra's last annual report was published, covering the 12 months to June 30 1987, it revealed that the fledgling SRO already had an accumulated deficit in its accounts of close to £1.1m, £788,000 of it incurred in that year alone.

The underlying reason was that it had to build its staff and

expand office space rapidly to cope with a flood of applications, at a time when its subscription income was still meagre.

The result was that Fimbra could keep afloat only with an overdraft from the Bank of England, plus assistance from life companies which not only funded a telephone helpline to answer queries from prospective Fimbra members but seconded staff to handle and process membership applications.

In theory, Fimbra's cash-flow problems should have eased since last summer. The 1986-87

annual report included a prediction that in 1987-88 the SRO would spend only £7.2m, well inside its projected fee income of £8.5m.

That, it now turns out, was far too sanguine a view. In the words yesterday of Ms Fiona Monro, Fimbra's director of communications: "Although we have not yet got the final figure, it is absolutely clear that costs have been higher than budgeted."

One uncertainty which has consistently dogged Fimbra is that until very recently nobody had an accurate notion of how

many members it would end up with.

This was because nobody has ever had a reliable figure for the total number of independent investment intermediaries in the UK.

At various times in 1986 and 1987 Mr John Grant, who retired as Fimbra's chief executive last year, came up with figures as widely divergent as 5,000, 8,500 and 15,000 as forecasts of his eventual membership.

Some of the vagueness should have been cleared up by now, as Fimbra's likely membership appears to be settling around a figure of about 9,500.

Unfortunately, however, the uncertainties were not confined just to membership numbers.

It has also found that the unit costs of handling applications were far higher than anticipated. This was especially awkward because Fimbra only receives a £25 payment with the application form, with the full payable only when authorisation is granted.

In particular, Fimbra has found that a significant number of firms are simply not up to scratch - but that means subjecting them to costly investigation.

The Barlow Clowes affair has also taken its toll. The SRO has had to scrutinise the affairs of all the independent intermediaries which placed business with Mr Peter Clowes' insolvent gifts fund management businesses.

The extent to which Fimbra's costs have swelled will not be known until the 1987-88 annual accounts are published shortly before its annual general meeting on October 19.

But all this has left Fimbra and the SIB with, potentially, an awkward problem - convincing the worst fears of observers who argue two years ago that Fimbra was taking on far too big a task in seeking to regulate thousands of small investment businesses.

The cash injection from the life companies may have met the SRO's short-term cash flow needs. But both Fimbra and the SIB will now have to reassess the whole question of how to finance Fimbra's operations over the long-term.

JPL/col/50

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The 'Infomatics Daily Bulletin' said "Apple Computer continued its seemingly inexorable rise towards the top of the IT industry pecking order."

the world. Our turnover for 1987 was £1.44 billion.

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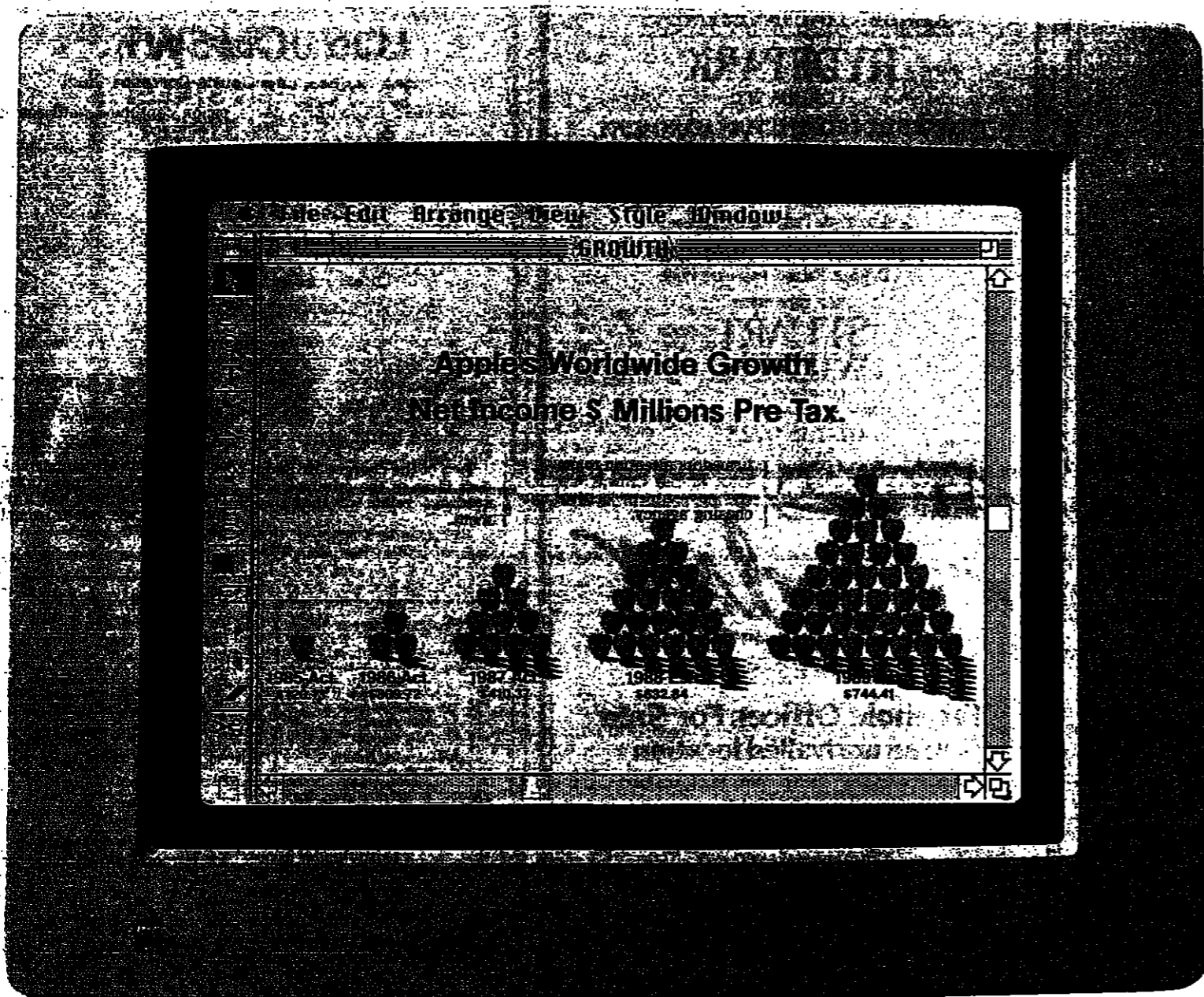
Another leading analyst predicted "Apple could sustain 25% growth for many years." Please excuse us for blushing.

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## THE PROPERTY MARKET

## A race for space, Bristol fashion

By Paul Cheeseright

THE NAME is a misnomer now. Aztec has nothing to do with Mexicans. It did have everything to do with the A to Z of technology. Aztec West, a home for high technology companies. It is still that, but it is chiefly a home for business wanting some space.

Space here has a double definition. It not only means accommodation, but also low-rise setting with plenty of car parking. Aztec West, outside Bristol, is one of the largest and one of the longest established of British business parks.

When Arlington Securities, a specialist in business park development, paid Electricity Supply Nominees £35m to acquire it 14 months ago, the park was a going concern with a history going back to 1980 with most activity based in the Central Campus and Northern Sector.

There was plenty of greenery. "The foliage was such you couldn't see the buildings," recalled Barry Holmes, the managing director of Aztec West. "It was fairly mature, but not grown up."

What has been happening since is an effort to make the park grow without losing the secret of youth. The buoyancy of the Bristol and South West economy has been a help. The availability of land has been vital.

The site is 157 acres, but half of that remains unused, largely in the Entrance Quadrant,

Park West and Southern Lakes. There is then the scope to create what Arlington likes to call "a community of businesses" rather than just a collection of buildings separated by trees and the obligatory lakes. But a community needs facilities for itself, for its visitors.

Companies on the park pointed this out to Arlington, which has responded in two ways.

First has been a start to the construction of the Aztec Centre in the Central Campus area. This will have both facilities for small professional firms and common services like conference suites, banks and small shops - newsagent, drycleaners, wine bar and so on.

Second, work has begun on the construction of a 90-bed hotel which will have 24-hour facilities like gymnasium, swimming pool and sauna. The hotel will be the largest building in the village area, where the intention is to soften the business atmosphere with a pub and green. Offices will be directed at occupiers with relatively small space demands.

There is in all this, of course, a strong marketing element. Investment in new facilities should enhance the ability of Arlington to attract more occupiers and charge them more when they arrive.

After the purchase Arlington put aside £8m for new expenditure on Aztec West and it is now engaged in a construction programme which is partly speculative and partly pre-arranged with new occupiers - Mello, the Japanese computer group, and South West Electricity Board, for example.

Altogether some 330,000 square feet of new space is being created at Aztec West, which will bring the total amount of space on the park up to around 1m square feet. This new space, apart from Aztec Centre and the Village, falls into two categories.

The Northern Sector of the park is actually a light industrial and distribution area used by companies like Wiggins Teape, Tesco, ICL, McDonnell Douglas and IBM but separated from the main body of the park by banking and trees. This area is being filled with new buildings in a joint venture Arlington has set up with Pearce Developments of Bristol.

The second category is office development in the main body of the park, two buildings in the Central Campus and another on the outskirts of the Village.

Every new building needs a new planning permission from the North Avon District Council. It is here that the B1 factor, the new class of use which

drops the separation of industrial and office activity, comes into play.

It has helped to accelerate a process at Aztec West that had already started. The original planning permissions had presupposed that there would be office space with the industrial space. Now, said Mr Holmes, "the incidence of creation of office space has increased dramatically."

The District Council has been sympathetic and its approach contrasts with that described by St Quentin, chartered surveyors, in a recent review. "Some planners see the new B1 use class as a threat to their planning policies both in terms of diluting existing established office centres and reducing the supply of land for conventional industrial purposes."

The B1 factor with the spending on new facilities and the general strength of the market have combined to give Arlington a sharp rise in its land values at Aztec West. The undeveloped land at Aztec West when Arlington bought the park was worth around £170,000 an acre. Now land on the park is worth around £400,000 an acre.

Although Arlington is not involved in land sales directly, it is prepared to sell freeholds and to engage in design and build exercises for new occupiers.

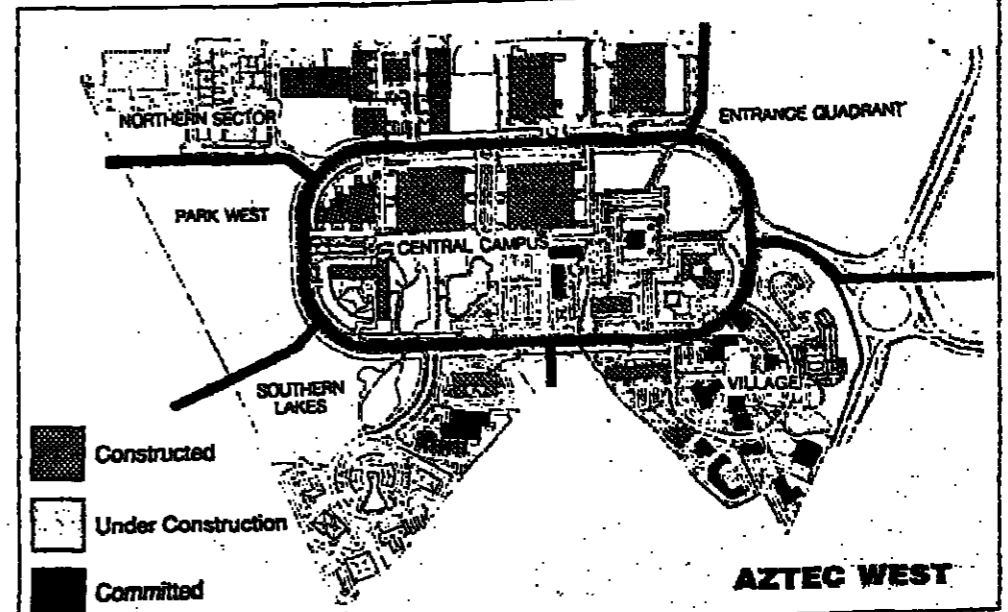
ers. With direct sales interspersed with leaseings it is possible to draw in different streams of revenue in order, as Mr Holmes put it, "to try to keep a balance between outgoings and incomings."

Arlington inherited a rent roll of about £1.6m a year at Aztec West. This gave it a staple source of revenue at the outset. Since then, however, it has been able to increase cash-flow by, for example, the sale of land to Shire Inns for the hotel in the village, the sale of land to Sun Alliance for a printing centre and the sale to Wiggins Teape of its building.

What all of this adds up to in financial terms is not clear. Arlington stresses that it is delighted with its investment and Mr Holmes said "it is paying its way," but no figures have so far been forthcoming.

The park, which has more than 40 occupiers, is a mixture of owner-occupied and leasehold premises. Arlington stresses the flexibility of tenure arrangements into which it is prepared to enter, but that is hardly surprising. The market may be buoyant, but it is not so buoyant as to allow landlords always to dictate the terms.

The companies on the park are a mixture - ranging from high technology, like Digital Equipment, Immos, Mercury Communications and Wang, to services like Barclaycard, Canada Life Assurance and Radio Rentals.



AZTEC WEST is on the M5 and a couple of minutes from the M5 junction with the M4. It is also about 10 minutes by car from the Bristol city centre. So it fits into two markets - the M4 corridor and the Bristol office market.

The area flanked by the M4 and the M3 further to the east is one of the most active on the property market. Indeed, this week Bristol Hall announced plans for another major development - a mixture of industrial, warehousing, retail and leisure facilities near Newbury.

But the office rents tend to go down the further out of London along the M4 a prospective tenant is prepared to go. On Aztec West, current

rents are around £11 a square foot. Hartnell Taylor Cook, the Bristol chartered surveyors, noted that generally the Aztec West rents remain roughly on level-pegging with those of the city centre. Lately, however, they have slipped behind a little.

At the Spectrum building in Bristol, which has been available for occupancy for some time, Hartnell Taylor Cook is quoting £13.35 a square foot and has two transactions in the hands of solicitors for £12.75 a square foot.

In the current state of the market, Aztec West premises might be expected to catch up with that once some of the new buildings become avail-

able. In the Bristol market as a whole there is a shortage of space.

After a sluggish period, characteristic of many British regional centres, development activity in Bristol has picked up, but the demand for space has led to much of the accommodation likely to become available in the next 18 months being pre-let. For Arlington then, there is advantage in speeding developments where it can so that Aztec West can have a role in meeting the demand.

The Bristol market has alternating periods of somnolence and vigour and it would not be unexpected if, in, say, a couple of years shortage of space turned into abundance.

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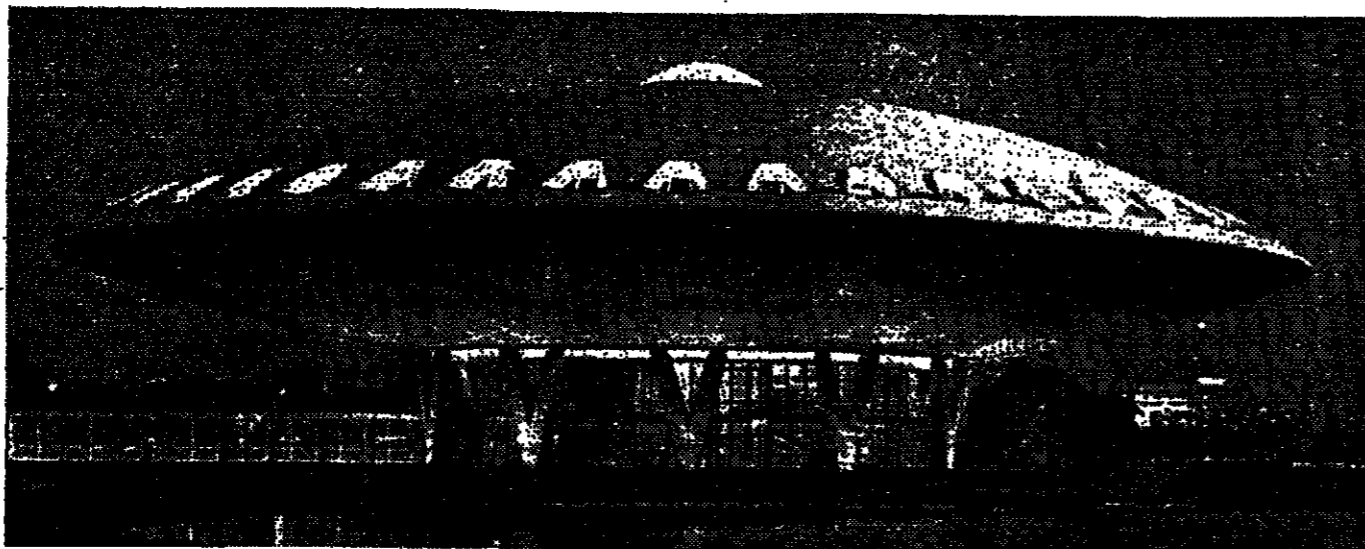
**NELSON BAKEWELL**  
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## MANAGEMENT

## Philips

## A cultural world apart

Guy de Jonquières and Laura Ram conclude an examination of the Dutch group by assessing the impact of its traditions and operating style



The Evoluon, which houses a collection of Philips's contributions to technology, emphasises the group's influence on Eindhoven

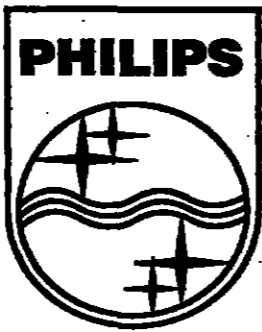
change, they must move the headquarters from Eindhoven to somewhere like Brussels, which is on the European business map," says a former manager of a stable Philips business in Europe.

Philips has recently completed a major shake-up of its corporate structure, which has transformed it from a loose confederation of fiercely independent national subsidiaries into a more tightly run organisation, in which authority for development, manufacturing and marketing is grouped in major product divisions.

But the importance of its headquarters seems unlikely to decline — and may in some ways even be enhanced. Cor van der Klugt, chairman of Philips' management board, says: "Eindhoven is the ammunition depot, the think-tank, the centre of excellence which provides all the necessary for national managers to make the profits we can make in the market place, conquer markets and so forth," he says.

Van der Klugt is widely credited with a sincere desire to get Philips moving again. But as well as questioning Eindhoven's fitness as a location from which to mastermind that process, some observers believe it will also be a major feat to persuade people closer to the

grass roots of Philips' worldwide organisation to do things differently. Like many large companies of its age, Philips possesses a highly distinctive "corporate culture" — a body of commitments, values and beliefs shared by its 337,000 staff in more than 60 countries.



Long-time employees describe themselves as "Philips men" and talk of "the Philips way of doing things." One goes so far as to observe: "I've spent almost all my adult life with Philips. It has become part of my life. I could not imagine a world in which Philips no longer existed."

Van der Klugt is in many ways a typical product of the system. Like almost all the company's top managers, he was recruited young — at the

age of 25 in 1960 — and has risen through the ranks to his current position after serving in a succession of posts abroad.

Philips has long earned the loyalty of its staff by being a generous employer, a cradle-to-grave paternalist of the old school. Some workers have even described it as "a social paradise".

Though pressures on the company to improve its performance have started to bring to the fore a breed of tougher and more aggressive manager, it still seems instinctively to shy away from brutal axe-wielding. Recently, for instance, it announced plans to streamline middle management at its consumer electronics division by abolishing some 900 jobs. Insiders say the decision was intended to signal a determination to get to grips with white collar over-manning.

However, many of the supposedly redundant executives involved are simply being shuffled around to posts elsewhere in the Philips empire.

This humane approach takes its cue partly from Philips' national origins. Like Dutch society at large, the company is deeply attached to social welfare, consensus and egalitarianism.

It still seems to believe that it can do well while also doing

good. The Evoluon, for example, is designed to show that Philips' scientific innovation has done as much for mankind as for the company's commercial performance.

Japanese companies, of course, also prize consensus, and many larger ones offer employees lifetime job security and other welfare benefits. But some critics argue that, in Philips' case, the formula has led to too much featherbedding and bureaucracy, blunting the "killer instinct" which motivates its successful Far Eastern competitors.

Philips, however, does not see things this way. It insists that many of its Asian competitors are playing foul by working their employees harder and paying them less well than it does its staff in Europe. Some Philips executives want the European Community to impose a levy on Far East imports to compensate for disparities in productivity allegedly due to "cultural" differences between Asians and Europeans.

Another handicap which has long dogged the company has been slowness in translating the excellent technology coming out of its laboratories into competitive commercial products.

The problem is widely

ascribed to the long-standing divorce between the company's technical and commercial operations. It is often described as the "Gerard and Anton syndrome", a reference to the two founding Philips brothers who divided the two sides of the business between them.

For many years, the company continued to have both a technical and a commercial executive running its main divisions. That two-headed structure has been abolished. But the career paths of Philips engineers, an elite hand-picked from the best universities, continue to diverge from those of its commercial staff, who usually possess much less impressive academic qualifications.

The company apparently considers the problem sufficiently serious to have engaged management consultants Arthur D. Little to recommend solutions. One result is likely to be greater emphasis on management training and a more flexible career structure which requires executives to gain experience in a wider range of management disciplines.

It is uncertain, though, whether that will be enough to remove another source of friction — that it is virtually obligatory to be Dutch to win promotion to a position of real power in the company. Guy Lorenz, a West German who heads Philips' information technology division, recently became only the second non-Dutch member of the company's management board in its history, and Dutchmen also hold the top positions in Philips' subsidiaries in the US, Britain and many other countries.

Non-Dutch managers complain they have little opportunity to rise above middle-level posts in their own countries.

Whether Philips is yet ready to give foreigners a bigger role at its inner sanctum in Eindhoven remains to be seen.

That would be consistent with the company's much-touted global strategy and efforts at the top to adapt and broaden its corporate "culture". But as many other established companies can attest, the next hardest thing to creating a positive corporate culture from scratch can be to change one which is deeply ingrained but has not kept up with the times.

Previous articles in this series appeared on July 22, 25 and 27. In earlier editions on Wednesday the Segment Data figures for North American Philips Corp were stated as being \$100m. This should have been \$100m.

## The dichotomy deepens

"Professional" management is a contentious concept, Michael Skapinker reports

Tom Peters, the co-author of the best-selling management book *In Search of Excellence*, said at a recent conference in London that if he had the power to do so, he would eliminate the phrase "professional management" from the language.

"I've said to many people, call me anything you want to call me, but don't you dare ever call me a professional."

Peters was criticising the idea that management could ever be considered a profession in the way that law or accountancy are professions.

The conference at which he spoke discussed plans to establish a new national qualification of Chartered Manager, to be awarded by the British Institute of Management, which would become a Chartered Institute of Management.

Peters was, of course, opposed to the idea, as were the 380 delegates to the conference. When asked to raise their hands if they supported the qualification, none did.

The conference was organised by *The Economist* magazine and by two organisations which are now at the centre of the debate over the chartered manager qualification: the Council for Management Education and Development and the Association for Management Education Development.

Although the two bodies have confusingly similar titles, they find themselves on opposite sides of the fence.

CMED was formed after last year's publication of the *Handy and Constable* reports, which drew attention to how poorly trained British managers were. CMED is the body which is promoting the chartered manager qualification. Its officials believe that much of the criticism of the proposed qualification is unfounded and that there is a need for a coherent system of management development in the UK.

AMED is an organisation of company management development executives, consultants and academics. This week it published a survey of over 300 of its members on the future of UK management development.

The association's members were not as solidly opposed to the establishment of a Char-

tered Institute of Management as the delegates to the conference. Nevertheless, only 30 per cent supported the creation of a professional institute, and only 14 per cent thought it should be run by the BIMA. A poll of the BIMA's own members showed that 94 per cent of them were in favour of the creation of a chartered institute.

The AMED members were very enthusiastic, however, about another idea: that companies should draw up "personal development contracts" with their managers. Learning contracts were supported by 84 per cent of the AMED members.

Bob Garratt, AMED's incoming chairman, says that the advantage of learning contracts is that they can include development tasks which are of benefit to both the manager and the organisation.

CMED recently published a code of practice which called on companies to establish management development goals for individual managers and for the organisation. Garratt argues, however, that the code is too vague.

"Rather than an anodyne declaration, AMED wants a document that managers can wave in front of their seniors and say 'this is best practice in management development'."

AMED called for the promotion of learning contracts to be separated from the Chartered Institute proposals. "We shall lose the national initiative unless the present complicated set of proposals is unbundled," the association said.

"We urge the Council for Management Education and Development to separate the two major proposals — those for a code of good practice for joint management development initiatives in participating companies and the more contentious proposals for a professional institute and a single architecture of qualifications."

AMED said that "a small, enterprising, short-life group of highly regarded management education practitioners and line managers should be set up by CMED to put flesh on the code of practice and stimulate initiatives to ensure its adoption by British business."

## Company Notices

### East Daggafontein Mines, Limited.

(Incorporated in the Republic of South Africa)  
("the Company")

FINAL EXERCISE OF THE OPTIONS TO SUBSCRIBE FOR ORDINARY SHARES IN THE COMPANY ("the options")

Optionholders are reminded that the last date on which the options may be exercised will be Friday, 12 August 1988. Each option entitles the holder thereof to subscribe for one new ordinary share in the Company at a price of 200 cents, payable in the currency of the Republic of South Africa. At close of business on 27 July 1988, the price of an ordinary share in the Company on the Johannesburg Stock Exchange was 1525 cents.

Any options not exercised on 12 August 1988 will lapse and will have no further value.

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**Legal Notices**

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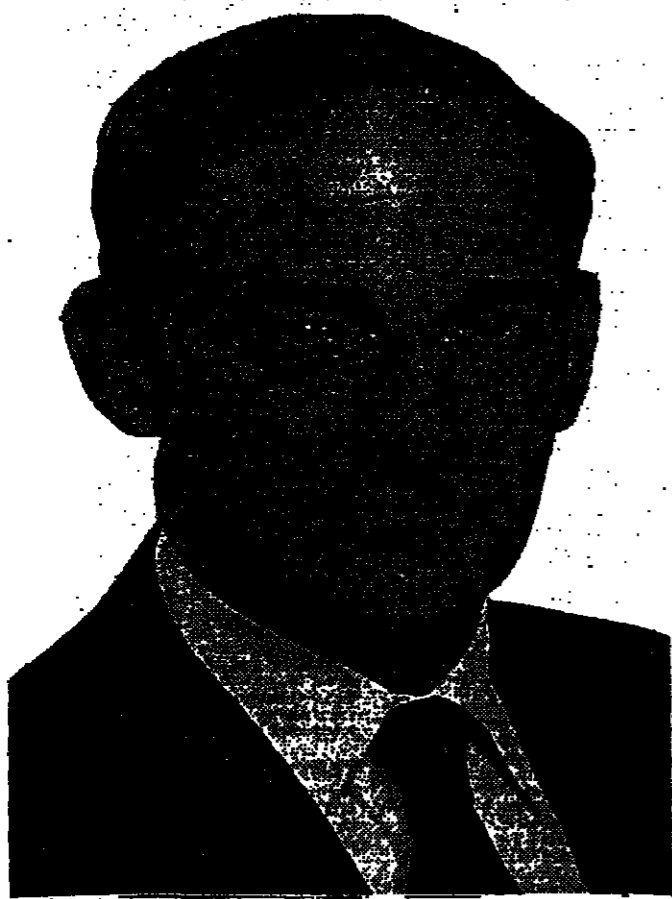


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## TECHNOLOGY

## A profession's image maker

David Fishlock profiles the retiring director general of the Engineering Council



Kenneth Miller: a mission to raise the status of engineers

How can Miller start to chip away at the image of the bodiless engineer?

That question was asked by Christopher Lorenz in these columns in 1982, when Kenneth Miller had just taken up his appointment as the first director general of the Engineering Council, a body born of the Finlinton report on the lowly status of engineers and engineering in Britain.

This Cambridge graduate in mechanical sciences is now retiring from the job, newly rewarded with a CBE and confident that there have been some enduring changes. British engineers are on their way back to the sort of public acclaim enjoyed by pioneers of the railways, such as Brunel, and by aircraft engineers earlier this century.

The recipe advanced by Sir Monty Finlinton, former chairman of British Steel, and his committee was bitterly debated by engineers before they agreed to some of its conclusions. Not least, they opposed the Government's approval of an Engineering Council with a Royal Charter to try to unify a profession which had become

highly fragmented and full of petty rivalry.

Six years on, the council is the uncontented custodian of a national register of nearly 300,000 professionals from the 48 engineering institutions that remain after several mergers. It has persuaded them to accept the same standards of education, training and responsibility for the qualification of engineers and technicians.

But registration was merely the start, a vote of confidence from the "shop floor" to embark on the big challenge of raising their status.

To create cohesion in a profession of disparate specialisations but common levels of education and training, the council's board for engineering set out three categories of professional engineer: chartered, incorporated and engineering technician. Miller is sure that this has helped to raise the quality of the profession.

Looking onwards, what has the council done for the public image of the engineer? Collectively, it has taken the view that the "social antipathy" from which the engineer suffers in Britain runs deep in the culture and is less a cause of

national economic decline than a symptom of something more fundamental: an antipathy towards wealth creation and professionalism generally. But Miller says the social climate has changed dramatically during the lifespan of the council.

One of the things it set out to do was to introduce school children to engineering. Today, Miller says, about 200 schools have an engineer on attachment, voluntarily giving guidance on careers, for example. It also encourages engineers to become school governors.

Miller cites salary increases as evidence of the improving status of engineers: rises have been ahead of inflation for the past two years. He estimates that a tenth of his chartered engineers now earn more than £30,000 a year, and 20 per cent are in general management, compared with 18 per cent in project engineering. "It's no longer a depressed profession."

Nevertheless, Miller is leaving some "unfinished business" in image enhancement for his successor, Denis Filer, formerly ICI's director of engineering, because 10 per cent of Britain's chartered engineers are still earning less than

£12,800 a year.

Bringing about the required transformation of public image was never going to be a cheap task. As the Government was inevitably the main source of funds, it had to be convinced that what the council was doing was in the national interest. "I think this is one of the major achievements of the council," Miller says.

The council was launched with a modest grant of £1m a year for three years. In 1985, the Government earmarked an extra £43m for higher education in engineering and technology. "There's no doubt about it, we played a key role," says Miller.

This token of Government faith in its work allowed Miller to tackle industry for subscriptions to replace the grants. The council recruited "industrial affiliates" — leading employers who recognised the value of engineers. Today it has about 180 and their contributions bring in an extra £500,000 a year.

As he sees it, financial support from the big employers sent a positive message about the council to individual engineers. As its status rose, it was

able to ask individuals for more than the meagre £2 registration fee. Fees now range from £3 to £7 and last year they brought in nearly £1.7m. Only chartered engineers pay the full fee, but they account for two thirds of the register.

In addition, Miller has a "good little business" in examinations for engineers, which reaps another £250,000 a year.

For their registration fee, engineers have the right — protected by the Royal Charter — to use the appropriate title. Miller contends that there are still about half a million engineers in Britain today who would qualify as an incorporated engineer or an engineering technician, but are not yet registered.

He leaves the council financially secure, with an income of nearly £2m this year. His initial team of 30 has almost doubled and he has built an organisation capable of responding quickly to issues — "within 35 minutes on one issue" — which is not a characteristic of institutions.

For three years he has enjoyed the support of Sir Francis Tombs, chairman of Rolls-Royce, as the council's chairman. Miller says they have been on the same wavelength on every matter of any importance.

*Engineering: our future.* HMSO, 1987.

## Embroidery goes on tape in-house

By Geoffrey Chartier

A SCREEN and keyboard system, which enables the punched paper tapes needed to operate embroidery machines to be made in-house, is being offered by Advanced Technology Industries (ATI), of Manchester in the UK.

Embroidery makers traditionally send the design to outside tape makers, but this causes a delay. The £21,750 ATI system allows designers to perfect their work on screen and then cut the tape ready for production.

Called Stitchbuilder, the machine utilises a "mouse" digitiser to transfer paper designs into a desk-top computer. The mouse is used to trace the design, its button being pressed at intervals to generate position co-ordinates. Modifications for size, colour and shape can be made on screen.

Designs can be printed on paper with a multi-pen plotter. When the designer is satisfied, the punched paper tape can be cut on an associated punching unit.

ATI can be contacted on 061 873 7899.

Europe's academic community is planning to upstage the commercial world by announcing what it believes to be a first in computer applications.

By December, the European Academic Research Network (EARN) aims to have in operation the first pan-European computer network conforming to "open" standards, rather than the proprietary standards of computer manufacturers. The network will conform to the internationally agreed Open Systems Interconnection (OSI) model, allowing computers from different vendors to communicate.

"We believe if we meet our deadlines we will be announcing the first international OSI network," says Joe Chester, executive assistant to EARN's president. It would be ahead of the open systems which several commercial organisations are planning for their European networks.

The EARN committee believes the switch to open systems will accelerate in the run-up to the Single European Market in 1992. "The move towards OSI is of strategic importance to the EC. It's an essential part of Europe's attempts to become more competitive with the rest of the world in R&D," says EARN chairman Dennis Jennings, who is based at University College,

## Academics claim a first for European network

Dublin. EARN was founded in 1983 by universities in seven countries to further research collaboration between academics. Now there are more than 400 universities and colleges connected to the network in 26 countries. Students and academics using EARN can also exchange information with their opposite numbers on networks in the US (Ednet), Canada (Netnorth) and Japan.

The main use of the computer network is for scientific research, although other disciplines are beginning to get more involved. Academics and students have access to files from any of the participating institutions. A group of Italian universities, centred on Pisa, is putting together a database which lists all the research projects. Another important use of the network is to send information to other universities. As well as one-to-one messages, the network can also broadcast a message to a group of users. One such broadcast list con-

sists of all those who are interested in the Irish writer James Joyce.

Both EARN in Europe and Bitnet in the US grew up using standards devised by the American computer giant IBM because they started by linking universities with that company's equipment. They still use IBM computer links on the dedicated leased lines which connect the participating universities (bitnet), Canada (Netnorth) and Japan (Ednet). The aim of EARN's project, which will cost about £1m (£7m), is to replace the IBM protocols on those links with open standards.

EARN relies on collaboration between the universities and industry. Until the end of 1987, IBM paid for some of the national communications links as well as all the international ones. Spending on those international links now amounts to about £1m a year.

In addition both IBM and Digital Equipment Corporation (DEC) have supplied much of the equipment

and expertise needed to get the network up and running.

The latest manufacturer to donate equipment is the Canadian telecommunications manufacturer Northern Telecom. It has given the organisers four data switches which will be sited in universities across Europe. Their main function will be to change the network over from the IBM standard to the international agreed transmission standard for packet switching (X.25).

They will also unload some of the universities' computer systems, so freeing the machines for other uses, and speed up the data transmission rate over the network. Most of the information is travelling at 9.6 kilobits per second (kbit/s). By the end of the year, Chester hopes the transmission speed will reach 64 kbit/s.

But because of the time it takes to produce international standards, Chester fears that the services available on the OSI network in December will be less sophisticated than those the universities are already using on the IBM network. Although the electronic mail standard (X.400) has been defined, those for other services remain on the drawing board.

Della Bradshaw

Britain's universities, faced with mounting financial and administrative pressures, are planning a shake-up of their computing systems to improve their management services.

They plan to organise themselves into "families" to spread costs and share expertise as a novel approach to high tech developments for these independent institutions.

The new computing strategy for higher education is set out in a paper circulated this month to vice-chancellors and principals by Sir Peter Swinnerton-Dyer, chairman of the University Grants Committee (UGC), which distributes government funds to the universities.

Mr Dyer cites two main reasons for the initiative.

● A growing need to support universities' decisions about resource allocation, research priorities, costing and financial management, as well as to respond to outside requests for information.

● A demand for the best possible systems to manage scarce resources, when individual institutions cannot afford the fundamental rebuilding of their systems which this entails.

Underlying the diplomatically phrased circular from the UGC is the feeling that universities' use of computers for management pur-

## The family approach to revamping systems

poses is extremely patchy. Few have systems which can help them with the gamut of tasks facing them, from managing student accommodation and paying salaries to planning their future.

The key problem facing most institutions is that, although their systems may be adequate at the operational level, they are less good at providing management information and of even less value for planning," says Sir Peter.

To put this right, the UGC is proposing a three-stage initiative. First, by December it will draw up a blueprint setting out the data requirements of the university sector. It will aim to cover 80 to 90 per cent of the data needs of any institution, which the UGC believes are common across higher education, with the rest being peculiar to each one.

Second, each university will prepare a migration strategy by mid-

1989, designed to bring its existing systems into line with those implied by the blueprint. The UGC is offering to pay universities 80 per cent of the cost of drawing these up.

Third, the UGC will use the migration strategies to group universities into families with common problems. These families could be based on the size and type of university, computing development needs and commitment to particular hardware.

The UGC envisages four to five families, each comprising between 10 and 15 universities. Each family will oversee the implementation of the migration strategies, through adopting appropriate software. There will be no attempt to ensure that members of a family all use the same hardware, though Sir Peter argues that "families will have greater purchasing leverage for software and hardware."

Universities are free to choose whether or not to join a family, but the UGC is dangling a carrot in the form of implementation grants. It may fund one computer specialist per institution in the family.

A managing team, chaired by Professor Colin Campbell, the new vice-chancellor of Nottingham, will meet next week.

David Thomas

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July 28, 1988

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40	25	Armstrong and Kleidon	38	0	-	-	-
57	40	BBS Dealer Group (NSM)	40	-1	2.1	5.1	6.4
165	135	Bardonia Group	165	+1	3.3	2.0	23.2
115	100	Bardonia Group Corp. Pref.	115	0	6.7	5.8	-
148	137	Bry Technology	138	0	5.2	3.8	10.2
124	100	Brownell Corp. Pref.	124	0	11.0	9.6	-
282	246	CCI Group Ordinary	282	-2	12.3	4.4	4.3
125	124	CCI Group 11% Conv. Pref.	125	-1	14.7	9.5	-
151	129	Carbo Pk. CSE	145	-2	4.1	4.3	9.2
112	100	Carbo Pk. 7.5% Pref. CSE	109	-1	10.3	9.4	-
285	147	George Rial	285	0	3.7	1.3	7.9
94	60	Ind. Group	94	0	-	-	-
118	67	Jackson Group	118	0	3.4	3.0	12.4
340	285	Midwestbank NY (Amort)	340	0	-	-	-
107	40	Robert Jenkins	107	0	7.5	2.4	-
425	124	Servotronics	425	0	8.0	1.9	38.6
282	194	Torrey & Carls	282	0	7.7	3.3	7.7
96	56	Truett Holdings (USM)	83	-2	2.7	3.3	8.9
113	100	Unicredit Europe Corp Pref.	113	0	8.0	7.1	-
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## APPOINTMENTS

## Restructuring at Barclays

BARCLAYS is to re-organise the management structure of its European operations to provide a direct business focus for its commercial banking, separating corporate and retail management.

Mr Terry Jones, international trade director, corporate director, becomes European director, corporate services. Mr Tim Ward, director of central retail services division, has been appointed European director, retail services. In France, Barclays has appointed Mr Jacques Ramboson as president of its directorate.

He will take over as chief executive of Barclays Bank SA on the retirement of Mr Pierre de Lalande, who will continue as chairman of the supervisory board. Mr Giles Davison becomes area director, based in Frankfurt, for West Germany, Austria and Eastern Europe. He will be joined by Mr Peter Stangor as general manager, Germany. Mr Graham is returning to head office, London.

Barclays Bank is forming a retail investment management company to co-ordinate Barclays' retail investment management (BRIM). It will be 15 per cent owned by BZW, with the remainder owned by Barclays Bank. It will be grouped in the financial services division of the bank, with Barclays Financial Services (BFS). Mr Mike Pitcher, vice chairman and managing director of BFS, becomes chairman of the new company. Mr Richard King, until recently president and chief executive of Barclays Bank of California, has been appointed managing director of BRIM. He also becomes a non-executive director of BFS, chairman of BarclaysShare and chairman of BZW/PML.

Mr David A. Meredith has been appointed executive director of Barclays' CHILTON (ELECTROSTATICS).

GRAMPIAN TELEVISION has appointed Mr Graham Good as director of finance. He was company secretary.

FINE TUBES, Plymouth, has appointed Mr David Dandjee as managing director. His responsibilities have included finance, administration and production. Mr Tom Barclay has retired as managing director but remains a non-executive director. Fine Tubes is a

British subsidiary of the CAWSL Corp., Pennsylvania.

GT MANAGEMENT has appointed Mr David FitzWilliam-Lay as group chief executive. Mr Mark V. St Giles has resigned but will remain a consultant.

AWD, Bedford, manufacturer of commercial vehicles, has appointed Sir John Buckley as a non-executive director. He was chairman of Davy Corporation.

VG ELEMENTAL, a division of VG Isolpore, has appointed Mr Neil Sanderson as managing director. Mr Tony Kinsella becomes sales director.

LEF GROUP has appointed Mr Peter Grant as non-executive

Mr Kenneth Brand, a partner in Frederick Brand & Partners, consulting engineers, has been elected chairman of the building and property group of the WESTMINSTER CHAMBER OF COMMERCE.

Mr W.R. Dolan has been appointed director international operations of JARDINE INSURANCE BROKERS GROUP in London. He was chairman and chief executive officer of international operations at Frank H. Hall.

AVIALL has appointed Mr F.M.H. (Martin) Ryan as director of European operations and area director of all its operating subsidiaries for aircraft parts distribution and engine division. He will be based at Aviall (U.K.), Huntingdon.

Mr John Sheehan has been appointed sales and marketing director of DECLAN KELLY HOMES. He was group sales manager of Charles Church. Mr John Crafts has been appointed production director Guildway, another Declan Kelly company. He was director and general manager of Andrew Murray Joinery.

AUSTIN ROVER FINANCE has appointed Mr Denis Spooner as sales and marketing director. He was north east area director of Lombard North Central, another National Westminster Bank Group subsidiary.

Mr Richard Holway has joined the board of TIS. He is corporate marketing director of Apple Computer (UK).

HOME & LAW PUBLISHING has appointed Mr Tony Craddock as new business director. He was business development manager.

Mr Terry Harrison, executive chairman of Northern Engineering Industries, has joined the board of NORTHUMBRIAN WATER.

Mr John Sawyer has been made managing director of COBURN OPTICAL INDUSTRIES (UK). Andover, part of Pilkington Visioncare.

Mr Andrew Evers has been appointed commercial director of WATERLOW PETTY BUSI. NESS FORMS, Leeds, a BPCC subsidiary. He was commercial manager.

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## The Tempest

ROYAL SHAKESPEARE THEATRE, STRATFORD-UPON-AVON

Absent for too long from the British stage, John Wood made a triumphant return on Wednesday in the main house at Stratford-upon-Avon as a spell-binding Prospero in Nicholas Hytner's superb revival for the Royal Shakespeare Company.

Confession time. I had to leave my heart to my mouth to comment on Peter Hall's recent National revival. Michael Bryant gave us a nut-brown swarthy mariner with a few grutes to sort out while operating off a short fuse and surrounded by stage effects borrowed from tatty re-runs of Renaissance spectacle.

Wood's Prospero, the best I have seen, is a demented stage manager on a theatrical island suspended between smouldering rage at his usurpation and unbridled glee at his alternative ethereal power.

His condition is transcendent, where Bryant's was doggedly earthbound. Most of the characters in this play are displaced creatures but only Wood's Prospero expands into the void. The others are trapped, swirling figures in a mist of confusion and low ambition. The curlew haze of David Fielding's cyclo-matic design is a theatrical metaphor in itself. The storm disgorges the Neapolitan court into Prospero's cell, down a trap.

Wood stands stock still by his staff on a tilted white disc. No quibbles about playing up

and down the vocal register, so for the dark backward and abysm of time we plummet several throxy fathoms deep. The dangerous scene with Miranda (Melanie Thaw) is more a re-run of his agony, a compensation of long-endured grief than a timeless exposition.

What I have never experienced with Prospero before is an exact alignment of his incontinent temperamentalism with that of a born party-thriller. He loves to spring surprises on people, and Hytner responds with a series of stunning second half tableaux.

The scalloped surround reveals blue-masked mimes bearing reversible plastic sea-foam displays for the banquet; the "Thought is free" catch is given a wonderful descent by Trinculo and spirited off in a whistle by Duncan Bell's admirably anti-fey but gorgeous Ariel (much better than the NTA) and he can sing properly; the Juno masque is a rainbow-encased Martha Graham ballet with eloquently childish mirror images, music of authentic dissonance and a tantalising 3-D vista of white-mist that seduces and lures.

All credit here to Martin Duncan's masques and Jeremy Sams's music. The setting of "Come unto these yellow sands" is particularly fine and Tippet's "I've been working round to this, John Wood does look increasingly and uncom- monly like Michael Tippet. I

cannot abide *The Knot Garden* nor was I much impressed by Hytner's Covent Garden revival earlier this year. But perhaps Hytner is here bringing the play up to date not only with Tippet's Langan view of it, but also with W H Auden's barbed Modernist refractations in *The Sea and the Mirror*.

Tippet's Manguis is the healing accomodator of all contemporary social ills. He takes problems on while relating them to his own. John Wood does exactly this, binding the entire play in his own wrecked view of experience. Hytner is a generous, inclusive director, so we also enjoy a definitive clown Trinculo from Desmond Barratt in pink and green, a matching sodden Stephano from Campbell Morrison and a subdued, blotchy and uniquely subservient Caliban from John Kane.

The whole play is released from RSC antiquarianism and remoulded in a new style from elsewhere, from the ENO, the ICA, the Royal Exchange and Dance Umbrella. But, finally, it is governed by a magnificent performance that restores that thrilling sensation of joy and sudden recognition at the edge of your eyes and confirms there is a future for late, great Shakespeare beyond the imaginations of Peter Hall, Trevor Nunn, Terry Hands and the whole Establishment classical theatre pack of them.

Michael Coveney



James Purefoy, John Wood and Melanie Thaw

## Nini's Story

RIVERSIDE STUDIOS, HAMMERSMITH

Vasco Pratolini is perhaps best known for his vignettes of Florentine working-class life. In his novel *La storia* he broadens his canvas to take in the bourgeoisie, and from the book's survey of Italian life during the advent of fascism comes this dramatised episode of the self-contained *storia di Nini*, the emotional diary of a wife who is sexually rebuffed by her husband and who finds solace in the arms of servant girls.

The production arrives at Hammersmith's Riverside Studios as part of the Italian Comedy temporary Theatre Expo. Parco Buttery's dance theatre has already been seen; a Dario Fo exhibition, *The Theatre of the Eye*, continues until August 13. The Pantera company's hour-long monologue *La storia di Nini* plays until July 30.

The actress Pamela Villosio rises to the challenge posed by a protagonist who shoots her temperamental bolt within the

first few minutes. Nini is soon sobbing and screaming, and for the next 60 minutes is by turn tearful, cold, bitter, ironic and tender. She shrieks, laughs, slaps herself, has hysterics. Above all, being Italian, she talks. And talks and talks.

It's interesting to think of what an English version would be like: full of the Pinteresque silences and pregnant pauses which uncomprehending Italians find less evocative than indicative of physical deformity (no wonder Visconti practically turned Pinter's *Old Times* into a musical). Possibly the only British actress capable of taking this catalogue of angst and anguish head-on in the Italian manner would be Glenda Jackson; and even she would overpower the work whereas Miss Villosio has the Latin gift of being casually de- perate, with throwaway thunders.

Her vocal range takes in a gruffly infatuated lower-class

husband (when will we nail the old *cancard* that the English are more class-obsessed than other races?) and a (poorly identified) peasant maid, nervous of her mistress's intentions. She chatters vacuously at a speed that would be the envy of every D'Oyly Carte patterer as the unworthy object of the heroine's infatuation. She manages a quiet intensity for tentative sexual attraction and a tragic calm for the bloody climax, when we realise she is speaking from beyond the grave.

Simply set against a white background with a folding chair and period radio, the piece is beautifully lit, presumably by Marco Sciacchuga to whom the programme attributes "stage effects" at just an hour (not, as the Riverside management maintains, two hours) the performance is an impressive display of tempera- ment allied to technique.

Martin Hoyle

## CINEMA

### All innocence abroad

**T**he eddest theme in comedy is innocence abroad. Run your finger along the vellum-bound volumes in your library (comedy section), and every famous name from Plautus to Shakespeare to Mark Twain is there to testify.

Likewise if you run your finger along your vellum-bound videos. What is *Grocodile Dundee* but *The Comedy of Errors* updated to modern Manhattan, with peripatetic Groucho schief in Asia Minor replaced by a perplexed Aussie in the Big Apple? And Eddie Murphy, who also first struck box-office gold in an updated comedy of confusion - *Twain's The Prince and the Pauper* - went on to richer things playing a happy-go-lucky Detroit cop adrift in the sleek corruption of Beverly Hills.

Now Murphy, directed again by *Trading Places* director John Wood, is at it once more. Twinkling 100-watt eyes and flashing thousand-dollar dental work - on a dark night he could be shot by Paul Hogan in mistake for the moonbeams - he is "Prince Akeem". This happy young African comes to New York to find a bride. For in his native Zanzibar he is tired of being a prince - of boundless luxury, gaudy banquets and beaming Zanzibaris catering to his every whim. Back there in the royal palace, his father James Earl Jones sits at one end of the 40-metre dining-table, munching grapes and reading the FT (sic). And Murphy sits at the other end, communicating by intercom.

Offered an arranged marriage with a lovely, pliant bride, our Prince finally slips his lid and splines to New York. Soon he is roughing it in a hovel in Queens, romancing the humble waitress to a one-branch hamburger chain (Shari Headlee) and proving the old Hollywood saw that poverty is next to godliness. The director, Columbia under Putnam, borrows its title and plotline from the Victorian doctropper by F. E. Anstey about a father changing places with his schoolboy son. (Why is this best not to be changed in the credits?) Judge Reinhold, Eddie Murphy's *Beverly Hills Cop* sidekick, plays the Dad who turns into his 11-year-old son

(Arsenio Hall) as he walks through JFK airport dressed inconspicuously in an over-the-shoulder leopard pelt complete with head. And Akeem never does get the hang of a certain 4-letter word. When neighbours disturbed by his midnight singing yell "P-you", he thinks it is a compliment or greeting. Learning out of the window, he happily shouts, "And f-you too."

But felicities are intermittent. The movie never gets its plot into proper gear, and once the romance gets going, with

(Fred Savage), while Master Savage turns into him, all courtesy of a wish-granting Oriental skull. So: Son's mind is in Dad's body, and Dad's mind is in Son's. All clear? Here too innocence is abroad: as Dad's new-found childlike charms and/or stardom startles his friends and department-store colleagues. It charms and/or startles us less. Reinhold's antics tend to overdo the gape-mouthed grin, stunted consonants and ill-coordinated limbs. (There is surely a difference between being 11 years old and being drunk?) The son's new-found sophistication is funnier, as he dispenses snap answers and perfect polyglotables to his astounded teacher. But even here a slim joke is furthered into language. By movie's end one is begging father and son to get the skull out again and resume normal identities.

**COMING TO AMERICA (15)** Plaza, Cannons Oxford Street and Shaftesbury Avenue  
**VIC E VERA (PG)** Odeon Leicester Square  
**A MAN IN LOVE (18)** Chelsea Cinema, Cannons Piccadilly and Tottenham Court Road  
**OUT OF ORDER (15)** Metro  
**THE RUNNER (PG)** ICA

its inevitable poor-is-beautiful pay-off, we know we are done for. Worse still Murphy seems to take special care, as in the Beverly Hill Cop films, that there is no comic competition in the supporting cast. Where heyday Hollywood comedies seethed and bubbled with good character actors - remember the Franklin Pangborns, the Zakalis and Frank Morgans? (no, of course not, you are far too young) - Murphy comedies die whenever Murphy is off-screen and frequently dies even when he is on it.

*Vic Versa* is a bore of the same colour. That is, it looks promising for about 500 metres then goes all pale-green and groggy-legged. By the home stretch, it is signalling for a stretcher.

Brian Gilbert directed this New York-set movie and Ian La Frenais and Dick Clement of *Purcell's King Arthur* wrote the screenplay. The film is a product of Columbia under Putnam, borrows its title and plotline from the Victorian doctropper by F. E. Anstey about a father changing places with his schoolboy son. (Why is this best not to be changed in the credits?) Judge Reinhold, Eddie Murphy's *Beverly Hills Cop* sidekick, plays the Dad who turns into his 11-year-old son

lawd, pastoral, patriotic. Malcolm McDowell - he of *The Clockwork Orange*, who now lives in Ojai - provided a linking text, delivered in a variety of accents still as good as any. McGee's conductor, and the Ojai Festival Chamber Orchestra, whose players are drawn from the Los Angeles Philharmonic, the Los Angeles Chamber Orchestra, the Ventura Symphony, and elsewhere. The California E A is a modest, music ensemble, played a chamber concert.

The first event was a concert presentation of *Purcell's King Arthur*. Two stage productions of the opera are due in America next year: in St Louis, and in New York. The Ojai Festival, Williamsburg, to celebrate the tricentenary of those monarchs' accession. Modern taste favours presentations that do justice to Purcell by doing justice, also, to Dryden; a concert version whets the appetite for a production employing the combined prowess of singers, actors, dancers, and stage machinists. McGee, with the communicative joy that fires all his performances, conducted Purcell's lively sequences of numbers mystical, martial, loving,



Trying to look inconspicuous: Eddie Murphy in "Coming to America"

Elsewhere there is little for our comfort. Miss Scatchell bares her breasts a few times. There is always something in a dull summer - and she keeps committing to France to attend her dying Italian mother. Claudia Cardinale and her drunken American father John Berry, a former London TV correspondent (whatever that is).

This kind of movie is celluloid's answer to Esperanto. Struggling for universal resonance and scrambling together incompatible ingredients, it produces a common-language cinema that no one wants to speak or read. It is all a great shame for Ms Kury's last made the sharper, more individual *Cop De Poivre*, a film that had the universality of total particularity: her own life, her own warning and warning memories.

A weekend at Getwick might be more enjoyable than the week's final two films. *Out of Order*, directed by Johnnie Turpin for the Birmingham Film and Video Workshop, starts promisingly. Billy (Pete Lee-Wilson) has looks-a-kind-of handsome and a wit-a-kind-of losing the same that the impressionable director has just stumbled on a cache of Vittorio De Sica films.

phone booths? However, this plot about communication disorder is only one among many less fetching plots. Around Billy mass a gaggle of characters representing "young working-class people living in Thatcher's era" (says the director). They include two lanky girl DJs, a double-tracked police recruit and the usual standardised horde of post-Punk rebels and square-brained authority figures: ignorant smug chattering by the Thatcherite night. The only consolation in what becomes a torrent of radical clichés is that the video photography is often too poor to discern them.

The photography is better in *Iron's The Hammer*, directed by Amir Naderi. But no amount of gilded sunsets and silhouetted freighters can save this tale of an arch-brood struggling to survive in a Gulf port. Indeed, they point up the movie's lack of guerdon rhetoric. The hero goes from extremity to extremity - robbery, begging, shoe-shining, scavenging - without ever losing the bloom of Technicolor beauty and without ever losing the same that the impressionable director has just stumbled on a cache of Vittorio De Sica films.

Nigel Andrews

## Purcell's King Arthur, Davies's Into the Labyrinth

Andrew Porter enjoys three days at the Ojai Music Festival in California

**F**or about I had been reading about the Ojai Music Festival (pronounced O-Hi). The late Lawrence Morton - friend and champion of new music in Los Angeles - was its artistic director. Stravinsky, Boulez, Messiaen and Kurtage are among those associated with it. This year I was able to visit it.

Ojai is a small town (just one traffic light), founded in 1874, in a beautiful valley about 75 miles from Los Angeles. The *Shangri-La* scenes of *Lost Horizon* were filmed here. Orange groves stretch along the valley floor. The concerts take place in a city park - in a dell flanked by noble trees. Around the concert shell, younger Californians have grown up and shaped themselves to it, as if in bloom. Tied rows of benches hold about 500 people, with room for perhaps 300 more on a lawn behind them. There is electric amplification - as in all American outdoor summer concert sites - but it is skilfully and unobtrusively employed.

It was a short, intense festival: five concerts in three halcyon days. (Also a production of Maxwell Davies's *Chanderella*, given thrice.) The music director

was Nicholas McGee, and the composer-in-residence was Maxwell Davies. Two orchestras were present: the Philharmonia Baroque, which is California's regally early-music ensemble, McGee's conductor, and the Ojai Festival Chamber Orchestra, whose players are drawn from the Los Angeles Philharmonic, the Los Angeles Chamber Orchestra, the Ventura Symphony, and elsewhere. The California E A is a modest, music ensemble, played a chamber concert.

The first event was a concert presentation of *Purcell's King Arthur*. Two stage productions of the opera are due in America next year: in St Louis, and in New York. The Ojai Festival, Williamsburg, to celebrate the tricentenary of those monarchs' accession. Modern taste favours presentations that do justice to Purcell by doing justice, also, to Dryden; a concert version whets the appetite for a production employing the combined prowess of singers, actors, dancers, and stage machinists. McGee, with the communicative joy that fires all his performances, conducted Purcell's lively sequences of numbers mystical, martial, loving,

under the hills, the vision based on local circumstance took on wider resonance. The United States has a Government eager to sell its national parks for about the price of a loaf. The soloist, as before, was Neil Mackie. He is pure and accurate; but I would like one day to hear the piece more trenchantly delivered - and perhaps with Scottish, rather than anglicised, pronunciation of George Mackie's name.

The other Davies pieces heard at Ojai were *Ave Maria Stella*, the Purcell Fantasia and Pavans, and *Ornament and Architecture*. The latter, conducted by Handel, Ramstein, the *Soldier's Tale* suite and *Pavans*.

Davies conducted an *Ensemble* Symphony that in its clarity, structural mastery, contrapuntal vividness, and instrumental keenness proved engrossing; a composer's fresh, sure tribute to the great composition.

The latest collection of Andrew Porter's reviews and essays originally published in the *New Yorker* is entitled *Musical Events - A Chronicle, 1980-1983*. It has recently been published by Grafton Books (£17.95).

Max Loppert has written of the potency of *Into the Labyrinth*, in Ojai, where oil and sulphur have been found

## TODAY'S TELEVISION

The extent to which the left wing orthodoxies of the sixties still dominate television is indicated by the fact that today, when right wing political theories are so clearly en vogue in such an amazing number of countries, it comes as a great surprise to discover a series of programmes setting out deliberately to explore these fashionable ideas. It is, of course, a Channel 4 series: *Right Talk* (8.15). In ten 45-minute episodes eight people from the right hand side of the political spectrum discuss the social issues on the agenda, starting tonight from Mrs Thatcher's bit of rhetoric last year: "And who is society? There is no such thing. There are individual men and women and there are families."

ITV begins a sequence of live coverage of police work in London, New York and Sydney at 9.00 with the opening hour of *999 - Police International*. There is another hour at 10.35 and then further programmes on Saturday and Sunday. The presenter is Nick Ross who will be stationed at Scotland Yard.

After the success of "Rutti Frutti" it would be rash to question the judgement of the drama department at BBC Scotland, and yet their new series beginning tonight, *Playing For Real* (9.30) does seem to have the most unpromising theme: table top football.

Christopher Dunkley

Television programmes in black and white

**BBC 1**  
7.55 am News. 8.15 am "Stage Right" with Lord Greville. 8.30 am "The Great British Bake Off". 9.00 am "The Great British Bake Off". 9.30 am "The Great British Bake Off". 10.00 am "The Great British Bake Off". 10.30 am "The Great British Bake Off". 11.00 am "The Great British Bake Off". 11.30 am "The Great British Bake Off". 12.00 pm "The Great British Bake Off". 12.30 pm "The Great British Bake Off". 1.00 pm "The Great British Bake Off". 1.30 pm "The Great British Bake Off". 2.00 pm "The Great British Bake Off". 2.30 pm "The Great British Bake Off". 3.00 pm "The Great British Bake Off". 3.30 pm "The Great British Bake Off". 4.00 pm "The Great British Bake Off". 4.30 pm "The Great British Bake Off". 5.00 pm "The Great British Bake Off". 5.30 pm "The Great British Bake Off". 6.00 pm "The Great British Bake Off". 6.30 pm "The Great British Bake Off". 7.00 pm "The Great British Bake Off". 7.30 pm "The Great British Bake Off". 8.00 pm "The Great British Bake Off". 8.30 pm "The Great British 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## FINANCIAL TIMES

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Friday July 29 1988

## A test for Mr Clarke

IT IS FORTUNATE that Mr Kenneth Clarke, Britain's new Health Secretary, is a good communicator. He faces the daunting task of convincing Mrs Thatcher and the Conservative Party that the approach to health care pioneered by Aneurin Bevan and the Labour Party in 1948 is broadly valid in the 1980s. The British public, of course, needs no such convincing; despite the strains induced by underfunding, polls indicate remarkable support for the NHS.

The "wide-ranging" review of the NHS launched earlier this year by Mrs Thatcher has been a source of wry amusement among health care professionals. They knew all along that, once civil servants started to analyse the reform proposals of the thinktanks and to make international comparisons, the strengths of the present approach would become increasingly apparent. The NHS, while far from perfect, offers a more comprehensive and equitable service than is found in virtually any other country. Yet it is also extraordinarily cost-efficient: much less is spent on health care than in most other countries, yet the improvement in life expectancy and other measures of general health have been as impressive.

## An open door

These and other virtues have persuaded the bipartisan House of Commons Social Services Committee, which reported yesterday, to urge the Government not to cast aside the NHS's many strengths in a short-term effort to remedy some of its weaknesses. Given Mr Clarke's known scepticism about some of the more outlandish reform proposals, the committee may find itself pushing on an open door.

A key test will be the view he takes of tax relief for private health insurance for the elderly. Advocates see this initially inexpensive subsidy as the thin end of a long wedge which could eventually lead to universal tax relief for health care. The Commons committee rightly opposes any extension of tax relief and points to the difficulties raised by fiscal subsidies elsewhere. It points out that the private health sector hardly needs a subsidy, having doubled in size since 1973. The

elderly would benefit far more from an improvement in NHS funding than from tax relief for services that have little relevance for them.

The committee makes short work of other proposed radical reforms. It says measures to allow the young and healthy to "opt out" of the NHS would be both expensive and impractical. It believes that the introduction of US-style Health Maintenance Organisations would cause immense organisational difficulties, serve the poor badly and not bring about the cost savings achieved in the US — because the NHS is already so much more efficient than American private medicine. The MFRs are also careful not to endorse unthinkingly the fashionable concept of internal markets: the potential benefits from competition between districts, they argue, could be offset by high administration costs and adverse effects on the less mobile and those on low incomes.

## Prosaic matters

The message for Mr Clarke is to eschew quick fixes and grand organisational redesigns (of which the NHS has seen plenty) and concentrate on more prosaic matters, such as improving the effectiveness of management, the flexibility of working practices, the quality of the information available for decision-takers, and the range of non-medical amenities offered to patients. The scope for action in each of these areas is immense.

There is no reason why those prepared to pay should not benefit from "extras" such as more privacy and better food. Much could be done to instil a less bureaucratic and more customer-orientated ethos. The paucity of information is alarming. Some 490 "performance indicators" have been introduced, yet nobody has much idea of the relative costs of different treatments or of their success rates. Consultants, with inflexible lifetime contracts, remain beyond the jurisdiction of district managers. There is little management training and nothing that remotely resembles an NHS corporate plan or statement of objectives. The time to think about wider reforms will be when these deficiencies have been remedied.

## Peace moves in Kampuchea

THE JAKARTA "cocktail party" talks to find a political solution to the Kampuchean crisis ended in disagreement and without a communiqué yesterday. That is not to say they were a failure. It is remarkable that the first talks in a decade between the warring factions did not break down: nobody walked out. The talks are a vital precedent: a new round should be called as soon as there is a chance of progress.

The problems are formidable: how to end the nine-year-old Soviet-backed Vietnamese occupation of Kampuchea; how to prevent the ruthless Khmer Rouge regime of Pol Pot from regaining power; how to secure a new government without a renewed outbreak of civil war and terror which might give the Vietnamese an excuse to return.

Yet the forces pushing towards a settlement are stronger than at any time since Pol Pot toppled the enfeebled Lon Nol administration in 1975 and instituted a reign of peasant terror which was terminated by the Vietnamese invasion on Christmas Day 1978.

## Regional conflicts

Mr Mikhail Gorbachev, the Soviet leader, has made clear that the Vietnamese occupation of Kampuchea is high on the list of regional conflicts which he wants ended quickly as part of his policy of improving relations with both the US and China; the Vietnamese, who receive around \$2bn a year in Soviet support for the occupation, have been told by Moscow to speed up the withdrawal and by the end of next year. China, on the other side, has made clear recently that its support for the Khmer Rouge is not unconditional. Senior Chinese officials have indicated privately that the Khmer Rouge probably should not form the next government.

The Vietnamese themselves want to leave Kampuchea. They are anxious to end their international isolation and gain access to Western economic aid and development aid. They have lost 25,000 soldiers killed and have been unable to

vanquish the three-pronged Kampuchean resistance forces, of which the Khmer Rouge are the most powerful.

The Jakarta talks first brought together Hun Sen's Phnom Penh regime and the three Kampuchean resistance groups. Later, the Vietnamese and Laotians joined in, together with representatives of the six states comprising the Association of South-east Asian Nations, which have a regional and economic interest in peace in Indo-China.

The key figure is Prince Norodom Sihanouk, the former Kampuchean monarch and head of state who heads one of the guerrilla groups. He remains the only credible personality with any chance of holding the warring factions of Kampuchea together.

## Restraining factions

Prince Sihanouk withdrew, under pressure, his insistence on an international peace-keeping force to underpin any settlement. However, some form of interim peace-keeping force would seem to be essential if the various factions are to be restrained following a Vietnamese withdrawal. The fact that Prince Sihanouk has withdrawn his demand does not mean that it cannot be resurrected later.

The headline news yesterday was of recriminations, with each side blaming the other for blocking progress and preventing the unity needed for a joint communiqué. But the more important news was that Hun Sen and Prince Sihanouk will meet again privately in October and a working group representing all parties to the talks, including the ASEAN states, will examine key areas of disagreement and evaluate before the end of this year the usefulness of reconvening the full talks.

In short, the momentum is still towards a peaceful solution for the impoverished people of Kampuchea who have been battered almost continually since independence from France in 1954. The only news on China and the Soviet Union to ensure that their respective clients do not halt that momentum.

Quentin Peel reports on Moscow's changing attitude to external relations

## The foreign face of perestroika

For three days this week more than 1,000 top Soviet diplomats, ministers, key party officials and members of the military high command have been in conference at the Ministry of Foreign Affairs.

Every Soviet ambassador was recalled to Moscow for the event, according to those in the know. Mr Eduard Shevardnadze, the Foreign Minister, presided, and the list of important guests included Marshal Sergei Akhromeyev, Chief of the Soviet General Staff, and Dr Gury Marchuk, president of the Soviet Academy of Sciences.

The exercise was dedicated to a rethink of Soviet foreign policy, a sort of Communist Party conference for the foreign service. The aim, said the Soviet news agency Tass, was "to make perestroika in diplomacy irreversible."

Glasnost has not gone so far that details of the debate have been made public. Yet the signs are that some very straight talking took place about the successes and more notably, the failures of Soviet foreign policy. And Mr Shevardnadze certainly set the whole event off with a bang.

Gone were the slogans of support for liberation struggles. Even the class struggle itself was a victim of his onslaught. "Co-existence based on the principles of non-aggression, respect for sovereignty and national independence, and non-interference in internal affairs must not be equated with class struggle," he declared. "The struggle between the two systems is no longer the decisive factor."

He went further. Foreign policy was about economic development, he said, in a phrase which would have done credit to his rival Mr George Shultz, the US Secretary of State: it was about "the ability to advance people's welfare at a fast pace through the use of the latest achievements in science and engineering."

So what is happening in Moscow? The whole affair comes at a time when there seem to be moves towards peace all round the globe. Iran has finally sued for a ceasefire in the Gulf war. South Africa, Cuba and Angola are talking hard terms of military disengagement in southern Africa. And the combatants of Kampuchea have been in Indonesia making an effort to find an end to their appalling bloodletting.

In Afghanistan, the Soviet Union's home-grown regional conflict, the withdrawal of Soviet troops continues apace, in spite of a steady flow of arms to the opposing guerrilla forces and growing indications that the Kabul regime is tottering.

Soviet client states around the world seem suddenly to be talking sweet reason. Even North Korea is making conciliatory noises towards its bitter rivals in Seoul. It would be tempting to see the hand of Moscow in it all, as the one common factor in the willingness to find political solutions. Inevitably, reality seems to be more complex.

It was just one day after Iran announced its desire for a ceasefire in the Gulf that Mr Yuli Vorontsov, the Soviet Deputy Foreign Minister, arrived in Tehran for talks. "It was just bad luck for them he went there the day after," according to one Western diplomat. "They will still try and take the credit. But I am convinced they were just as surprised as everyone else. They have worked very hard on the Iranians, but that was because of Afghanistan, not the Gulf war."

## Medal for a German

Günter Steffens, general manager of the Dresdner Bank in London, has just been given the unusual award of an honorary OBE. Steffens has been in London for 20 years and is a prominent figure in the social as well as the City scene. But you don't get an honorary OBE for that alone.

The real reason appears to be his work in setting up the British-German School for Vocational Training which will open its doors in London in October. Steffens has been chairman of the German Chamber of Commerce here for the last 14 years. He was approached by a number of subsidiaries of German companies in Britain about the need to do more to train their recruits: German-style.

The result is the new School, which so far has the backing of 13 companies, mostly German subsidiaries, though there is also a Swiss interest and some British. There will be two years' courses, very much on the German model of two thirds of the time being spent with the company who sends the student and one third on related studies at the School. The initial courses will be in business administration and commercial banking.

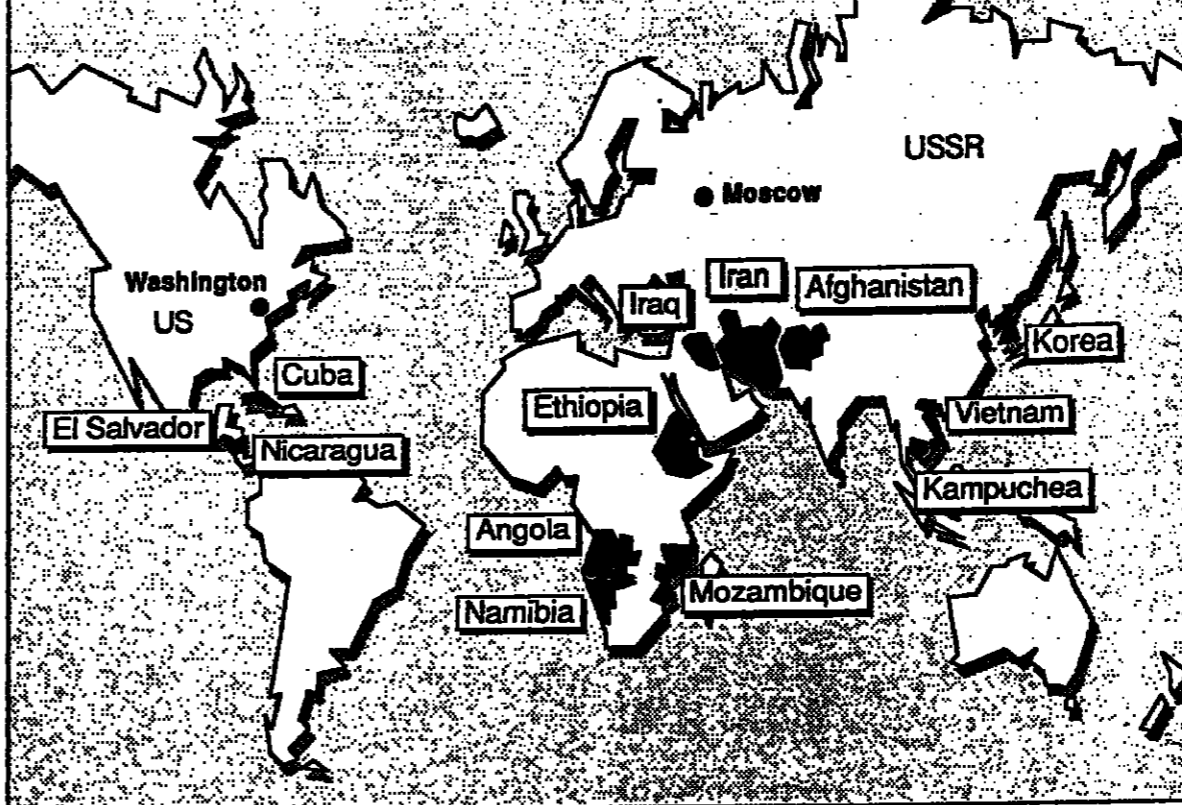
Lord Young, the Secretary of State for Trade and Industry, is sufficiently enthused about it to have presented the OBE to Steffens who seems set to stay in London for a few more years. His wife, Doretha, has just completed a degree in psychiatry.

## Truth will out

There are several surprises about *The Secret Life of Willie Collins*, which will be published by Allison Busby on Monday. The first is that it is written by William M. Clarke.

Clarke is best known for his

## KEY AREAS OF SUPERPOWER REGIONAL RIVALRY



As for Angola and Kampuchea: all the diplomatic legwork for the former has been done by Dr Chester Crocker, the US Assistant Secretary of State for African Affairs, and for the latter by the foreign ministers of ASEAN (the Association of South-east Asian Nations). They have wheeled and dealt the opposing parties to the negotiating table.

Yet even if Mr Shevardnadze and his colleagues cannot take credit for specific initiatives to solve the regional conflicts of the world (except Afghanistan), there is no doubt that the change of mood in Moscow has been a crucial contributory factor in creating a climate of negotiation.

In a brave attempt to gain some credit from the Afghan debacle — in itself the biggest foreign policy blunder by the Soviet Union for decades — the Kremlin has always claimed it would set off a "chain reaction" of similar negotiated deals, involving the combatants themselves, but underlined where necessary by superpower guarantees. That is what seems to be happening.

It is indeed ironic, and rather impressive, that such a failure should somehow be turned into a success. Yet that is exactly what Mr Mikhail Gorbachev seems to be attempting across the whole range of Soviet foreign policy. He is seeking to turn what is little more than a policy of international retrenchment into a public relations exercise in peace-making.

In spite of the fact that President Andrei Gromyko, the personification of Soviet foreign policy as Foreign Minister from 1957 to 1985, is still a member of the ruling Politburo, the period of his rule and the substance of his policy is now almost universally reviled. That was a clear message in Mr Shevardnadze's address this week. "We failed to use all the possibilities for preventing the emergence of the iron curtain, for lowering the level of

confrontation and curbing the arms race," he said.

He went on to deflect the blame slightly from his predecessor, who is regarded with a sort of sneaking admiration for his sheer staying power in the party, by planning it rather on domestic policies. Indeed there is no doubt that it is the crisis at home, the chronic stagnation of the Soviet economy which greeted Mr Gorbachev on his accession to the leadership, which has been the major factor behind rethinking policy abroad. It is the need to concentrate on domestic reforms, both economic and political, which has pushed the Soviet leadership down the path of reducing its direct involvement in international trouble spots.

## The biggest challenge is not disengagement from Third World adventures, but promoting a new modus vivendi in Europe

The most obvious pressure came from the sheer level of military spending, put at somewhere between 15 and 20 per cent of national income. "One of the reasons the West imposed the arms race on us was to exhaust socialism economically," Mr Shevardnadze told his audience. Indeed some policy planners now seek to blame most of the failure of the Soviet economy on the level of military spending.

That is undoubtedly too simplistic. Defence spending alone did not cause the rethink of foreign policy. Another factor was the extent to which the Soviet Union found itself supporting a whole range of economic disasters: Cuba and Vietnam both take millions of dollars a day in hidden subsidies. Mozambique and Ethiopia, not only

impoverished but also drained by interminable civil wars, have proved little less expensive.

The Soviet Union has found itself, in effect, providing a double subsidy for its international adventures: economic support for Cuba and Vietnam in the form of guaranteed purchases of their exports and added military support underpinning their involvement in Angola and Kampuchea respectively.

Quite apart from the straight economic cost on a Soviet economy unable to pay its own way, there was a substantial diplomatic cost. Professor Vyacheslav Dashichev, of the Institute of Economics of the World Socialist System, blames in particular the failure of the Soviet leadership in the 1960s and 1970s to see a contradiction between their desire to exploit Third World conflicts, and promote détente in Europe.

"Take Angola," he said. "We prepared a paper for the central committee (of the Communist Party) warning that it would disrupt all our relations with the US to get involved. But unfortunately our advice was not heard." The temptation to take advantage of the post-Vietnam syndrome in the US was simply too great for Mr Leonid Brezhnev and his colleagues.

But it is Afghanistan that has been the biggest factor in the change of thinking. The failure of Soviet intervention in its own backyard called in question not only diplomatic adventurism, but more profoundly, its ideological underpinning. "Afghanistan was not ripe for socialism," Professor Dashichev — along with many others — now admits. "To try to introduce socialism in this country was breaking the principles of Lenin."

"Revolution cannot be imported. It must arise from inside. In Afghanistan we had no conditions for such development. It was a great mistake to think that a feudal, or pre-feudal society, with illiteracy and a lack of

economic development was ready for socialism." Then he added: "We made the same mistake in Africa."

In today's conditions of glasnost in Moscow, Professor Dashichev and fellow analysts are only just beginning to open up the foreign policy debate to public scrutiny. It is acceptable to criticise domestic policy, but still seen as slightly disloyal to question external relations.

None the less Mr Shevardnadze seems to wish to change that. He has proved a remarkable success at the Foreign Ministry given that he had no foreign experience before — he was the Communist Party leader in Georgia, credited with curbing the worst excesses of corruption there. In the event he has proved a more than able interlocutor in negotiations with Mr Shultz. Indeed, the good relationship between the two is credited with pushing through the negotiations on scrapping intermediate-range nuclear weapons when technical objections threatened to abort them.

But perhaps the biggest challenge for Mr Shevardnadze lies not in managing a diplomatic disengagement from Third World adventures, where the costs are relatively limited, but in managing to promote a new *modus vivendi* in Europe.

A fascinating speech at last month's Communist Party conference by Mr Yuli Kvitsinsky, the Soviet ambassador to Bonn, spelt out some of the new thinking. First he spelt out the essential link between domestic economic reform and foreign policy. Without a healthy economy at home, Soviet foreign policy would not bear international weight, he said. The US used its economic muscle more often than its military, he said. "That is why a reduction in our military potential must not be combined with adequate growth in the country's economic potential."

He said his finger brutally on the continuing weakness — "the technological lag of Soviet industry and overall low quality of our finished products" — which he said meant that on occasion "to sell Soviet output we sometimes even have to remove the Made in the USSR trademark."

He gave a warning that the Soviet Union and its East European allies were in severe danger of being left out of the "acceleration and deepening of the integration process" in Western Europe. If the Comecon states failed to promote a similar economic integration, he said, "the EC and NATO via the EC may begin to absorb more and more European states... In other words, they may construct an all-European branch of the North Atlantic bloc rather than develop equitable and constructive co-operation between the two systems on an all-European basis."

What Mr Kvitsinsky did not make clear was whether he feared some of the Eastern bloc breaking away under the increasing attraction of the economic advantages of the West, or whether he simply saw the EC attracting new members from the European Free Trade Association.

There is no doubt, however, that the greatest challenge to Mr Gorbachev's skilful management of international retrenchment will come in Eastern Europe. He has so far successfully dodged the question of whether the Brezhnev doctrine — the ultimate threat of military intervention in Eastern Europe — survives under perestroika.

Even behind the closed doors of the Foreign Ministry, they are not quite ready to tackle that yet.

## OBSERVER

work in and on the City and especially for his chairmanship until last year of the British Invisible Exports. The second is that he really does unravel well, in a secret life. And the third is that Clarke is married to Collins' great-granddaughter. A large part of the story was previously known.

Collins, author of *The Woman in White* and *The Moonstone*, was one of those Victorian novelists who were not markedly constrained by the moral climate of the time, though in many outward respects he conformed. At one stage he took Charles Dickens off to Paris to show him what women could be like.

There were two main women in Collins' life — Caroline and Martha. The three of them ended up by more or less living together. Collins had children by both of them. What has been lacking until now, however, is information about these descendants. The decision of the family to come clean, as it were, came after a review by C P Snow of an earlier book about Collins in the *Financial Times* in 1974. Snow wrote: "Apparently, they don't wish to be recognised. If I were they, I should be proud of such an ancestor, one of the oddest, most gifted, and by all accounts most likeable figures of the Victorian age." That, and a similar review in the *Sunday Express*, changed the family's mind. Sensitivities about illegitimacy were overcome and now we know the story. Almost a Collins novel in itself.

## Clean Games

The organisers of the Seoul Olympics are making extraordinarily confident noises about the great pagan festival that starts on September 17. The



Korea National Tourism Corporation (KNTC) says that Olympic fever is rising and the mood in Seoul is being "intensified with perfect preparation."

Construction work finished in early June with the last coat of paint applied to the swimming pool. The facilities and venues have gained "unstinted praise" from the leaders of the Olympic movement. The streets and avenues of Seoul are "being soaked in an Olympic mood."

Foreigners have already bought more than 400,000 tickets. And the authorities have conducted an English contest for over 50 taxi drivers in Chamshil, "to improve the English-speaking standard of drivers who greet foreigners as their guests."

The KNTC reckons that "assisted by a nationwide consensus for spotless security, convenience and hospitality, the Seoul Olympics is highly foreseen to end in signal success resulting from large-scale and supreme teamwork and unsparring volunteers' support as well."

Not that it's easy to get there. All flights are jammed. A colleague was told yesterday that he could still get into Seoul, but that he couldn't get out — not until October 10, eight days after the pagan festival ends, though that was first class.

## Tory for LSE?

If Nigel Lawson really is looking for a job after his final budget next year, there is one intriguing post still open: Director of the London School of Economics.

He has all the intellectual qualifications and would bring enormous prestige besides. The salary could probably be raised accordingly and there is no reason why he should not retain his seat in the House of Commons, if he has not already moved to the Lords. And if the LSE is not physically the most attractive abode in the country, it is always possible, like Ralf Dahrendorf, to move on from the directorship to an Oxford College.

It is, of course, conceivable that he would not accept the job if offered. But it does seem extraordinarily timely of the selection board not to have sounded him out.

Meanwhile, there is another story going the rounds about Lawson. He goes to the Prime Minister in August (this August, not next) and tells her he is resigning.

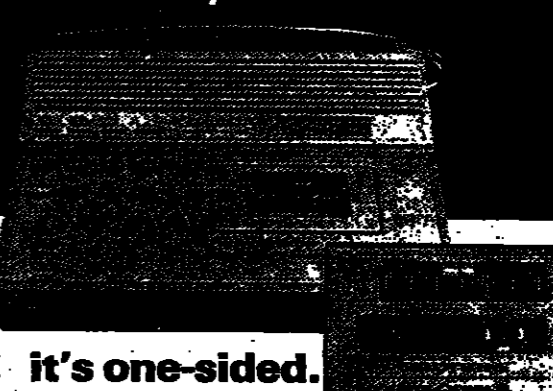
"Tell me, Nigel," she says, "what job would you really like?"

"I'd like to be Chancellor of the Exchequer," he replies.

## Baker's wit

Kenneth Baker, the Education Secretary, prides himself on his use of words. So what are we to make of his comment on Paddy Ashdown, the newly elected leader of the Social and Liberal Democrats? "The shallowness of Mr Ashdown runs very deep," he said this week

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## POLITICS TODAY: JOE ROGALY

## The sands of Thatcher time

Not even Thatcherism lasts forever. The best way to comprehend this is to get out of Britain.

Here in London, the political atmosphere is suffocating: we seem to live in a one-party state under an all-powerful Prime Minister who seems set to go on and on and on. A visit to the US, where the Democrats have lost four of the last five presidential elections, is, however, instructive. After the 1984 election, in which Mr Walter Mondale was soundly thrashed by President Ronald Reagan, the Democratic Party fell into despair. It was hopelessly divided, demoralised, leaderless, and up against a system of voting by electoral college that seemed to give the Republicans a probable hold on the White House for the rest of this century.

This system is still in place, yet this year the Democrats stand a chance of winning back the presidency. (One reason is that the Republican candidate, Mr George Bush, has all the magnetic attraction of Sir Geoffrey Howe, without the obvious competence.) Even if it loses, the Democratic Party will still be in the game for 1992. The principal reason is that Mr Michael Dukakis is an effective leader. For the time being at least he has brought together all the party's factions, from right to left, from Benton to Jackson, in British terms, it is as if a Labour leader had achieved unity of purpose with the joint blessings of Dr David Owen and Mr Tony Benn, plus those in between.

It is no use making the excuse that Britain is different. Of course it is. It would be easy to fill the rest of this page with a list of the differences between US and UK politics. But that is beside the point. The essence of the matter is that in 1984 the feeling of hopelessness among US Democrats was just as strong as it is in the British opposition today. The real difference is that they got their act together.

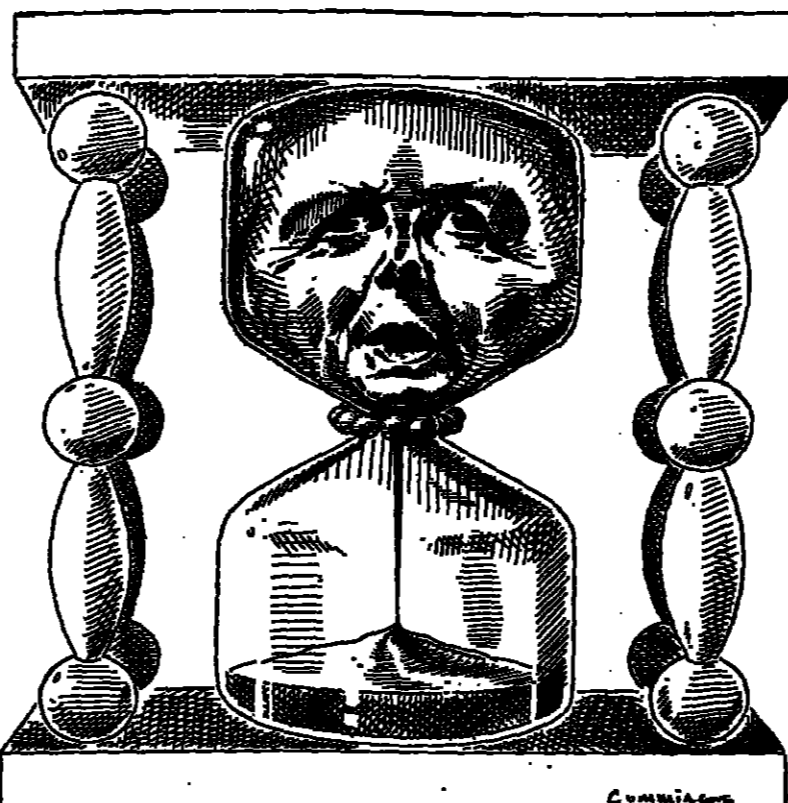
Looking at the British scene from outside does not always work. It has not worked for Mr Neil Kinnock, whose misadventure on his recent trip to Africa may turn out to have been the proximate cause of his destruction as a credible leader of the Labour Party. If he had called on the Democrats he might have aspired to become a Dukakis; as it is he is more likely to experience the fate of a Mideast. It may not work for Mrs Margaret Thatcher. She sets off today on a visit to Labor-governed Australia, with plenty of stops on the way. Yet it is unlikely that this will constitute a road to Damascus on which she discovers the virtues of the community, the virtues of unbridled individualism, and the inevitability of European integration.

But for us humbler folk travel can still broaden the mind. It is now clear that on domestic matters Reaganism (with its close associations with Thatcherism) will not long survive the departure of President Reagan, even if his vice-President succeeds him. For one thing, President Reagan himself was unable to balance his budget, for another Mr Bush is already making expensive campaign promises. This week he put forward a child-care scheme that nearly matches the Democrats' undertaking to provide crèches for working mothers. If he were to win his administration would be likely to prove as different from President Reagan's as would, say, Mr Kenneth Baker's from Mrs Thatcher's. A senior British Tory commented wryly this week that Mr Bush would make the best head of a Western government since Anthony Eden.

Bring the lesson home, and you will see that even if Britain's opposition continues to disqualify itself from office it is by no means certain that Thatcherism will survive Thatcher. Something like it might, if Sir Geoffrey became the successor, but his opportunity to take the big prize has probably passed him by. Either Mr Nigel Lawson or Mr Cecil Parkinson would try to keep the flame of ideology alive, but many of the other members of the present British Cabinet are Thatcherites for the purposes of their present unspoken contracts of employment only. If one of them became boss, the whole policy of the Government would gradually change.

The Home Secretary, Mr Douglas Hurd, is no instinctive Thatcherite. The new Secretary of State for Health, Mr Kenneth Clarke, is an able advocate and a passionate believer in the market economy, but I suspect that on social matters his eventual policy would be mostly to the left of current thinking. Mr Peter Walker, a survivor rather than a contender, is well known for his "wet" philosophy. The Secretary of State for Scotland, Mr Malcolm Rifkind, is currently preaching Thatcherism squared, but that is because it is his job to do so. The same applies to most of the other senior positions, although not to Mr John Major, Chief Secretary to the Treasury.

It would be a mistake to conclude that the Cabinet is continuously in disagreement with the Prime Minister, as were her early Cabinets after 1979; nor would it be wholly correct to describe her ministers as a collection of self-seeking yes-men. It is rather that she has become so dominant that she can safely assume that whoever is asked to serve will understand the terms upon which service is to be rendered. And anyone who accepts those terms is soon infected with the



enthusiasm that comes from feeling that one is part of a winning team.

This aura of authority frees her from the need to put ideology before competence, as was shown on Monday when the undoubtedly Thatcherite Secretary of State for Health and Social Services, Mr John Moore, was left with half his department and the ideologically uncertain Mr Clarke was given Health to look after. (His lack of communication skills apart, poor Mr Moore may have failed to grasp that it is no good being Thatcherite on the National Health Service when the Prime Minister herself is not.)

Mrs Thatcher's authority derives from her person as well as the office she holds. Yet if she were to depart from Number 10 Downing Street at any time before the next election the principal political effect of a non-Thatcherite Conservative succession would be delayed. Most of the contentious items in the 1987 election platform are now through Parliament or ready to be pushed through in the autumn. The Great Education Reform Bill is now on the statute books. A different administration might seek to implement it in a different manner, but that is a matter of nuance rather than substance. The poll tax is now, on its way; a sensible successor to Mrs Thatcher, now or in the future,

will surely at the least amend it to make it less regressive, but a reversal of policy is unlikely. The proposed new Official Secrets Act would be less authoritarian under a Prime Minister who was less obsessed with secrecy at all levels; once passed it is likely to remain unaltered on the statute books.

In the end there would, however, be one significant difference. The manifesto for the next election, which is likely to continue the series of social policy changes, would be one thing under Mrs Thatcher, and quite another under a less ideological successor.

The story is quite different when one moves from the social sphere to the management of the economy on Thatcherite principles. In this sense, everyone is a Thatcherite now: the belief has grown up in the Conservative Party that the mystery of how to run a modern economy has been solved. Yet the consistent application of the well-known principles of privatisation, deregulation and fiscal prudence may depend most of all upon the Prime Minister herself. It is hard to think of a successor who would be as determined as she has shown herself to be to stick to policies that she believes will turn out to be right.

## Britain's community charge

## The crude virtue of the poll tax

By Giles Keating

Messiness is inherent in tax reform. Some individuals receive a windfall gain, usually at the expense of others. Distortions of one sort are removed, but generally at the cost of creating or worsening some other distortion. For example, Mr Nigel Lawson's lower-rate National Insurance contributions reduced the large deductions from income that had deterred the unemployed from seeking work, at the cost of creating 100 per cent-plus marginal rates slightly higher up the income scale, and his corporation tax reforms had similarly mixed effects.

But the message of economists up and down the land is that the current reforms of property taxes avoid such messiness. They say that the proposed changes are unequivocally bad, worsening distortions without offsetting benefits. And the critics are right to argue that the removal of the only tax on owner-occupied dwellings will boost house prices, adding to regional distortions and pushing up wage inflation. Are there really no offsetting gains that improve the allocation of resources?

The community charge, or poll tax, is crude, but that is its virtue. Tax is virtually a lump sum charge that has no influence on decisions. Income tax encourages us to earn more and work less; VAT pushes us to eat more and to spend less in the gymnasium; but the poll tax leaves us indifferent. However, the poll tax influences decisions in one significant way, by encouraging people to elect the local authorities that provide the level of public services they want. Maybe this means more Tory councils and lower spending, but in some areas a majority may exist for high spending. Either way, the poll tax provides a stark choice between retention of income for private spending and the handing over of income for public spending, in a way that rates never did because many voters never paid them directly and because rates were also a tax on housing.

Suppose — and it is a big supposition — that central government grants under the new system are equitably distributed among local authorities according to need. Then, via

the ballot box or by moving area, the electors can choose a level of local authority spending that is close to optimal, in the sense that most voters would be worse off if spending were either raised or lowered. So there will be a "market" for tax levels among competing public authorities.

Merely replacing domestic rates by the poll tax will not give this optimal outcome, because local authorities could increase taxes on businesses. When local businesses decline due to high rates, the voters cannot easily distinguish this from the effect of national economic policies. Also, the employees and owners of businesses often live outside the local authority area that taxes their business. By contrast, at a national election almost all the employees and owners of businesses have a vote and are likely to blame the government for a slump induced by higher business taxes.

The local power to tax businesses will be removed by the unsung introduction, alongside the poll tax, of the uniform business rates, fixed nationally.

Moreover, the uniform business rates reduce wage inflation, at least partly offsetting the much-trumpeted boost to wages from abolition of its domestic counterpart. This is because, broadly, business rates will decline in many high unemployment areas, and rise steeply in wealthy "Rosedale" around London. Developers will be encouraged to provide factory space in areas where spare labour is available, reducing pressure on wages. The effects are difficult to predict and will be complicated by new rateable values, but that is no reason for ignoring this key element in the reforms.

So the Government's reform of property taxes does give a messy mixture of effects. If the reform were combined with a new type of housing taxation, there would be an improvement in resource allocation. Even without that new tax the adverse effect on wage inflation from abolishing domestic rates is at least partly offset by the impact of the uniform business rates, and there will be better decisions on the level of local authority spending.

The author is *European Economist at Credit Suisse First Boston*.

## LETTERS

## 'How much can the state now do?'

From Dr Aaron Negad.

Sir, Baroness Blackstone claims that the state sector, traditionally associated with inertia and inefficiency, is challenged to the right-wing think tanks, and explodes some myths. But although she concedes that state intervention in the market has not always worked, she must be cautious not to perpetuate left-wing myths about the power of the state. How much can the state now do?

Technological change and the internationalisation of trade have increased the com-

petitive pressures in the world economy. This has posed new problems for the state sector, traditionally associated with inertia and inefficiency. In addition, multi-national enterprises which control huge economic resources — and are prepared to mobilise them quickly and effectively — have often undermined industrial policy, and are gradually lowering the mast of the state as the main instrument for industrial policy.

Witness how Japanese corporations can influence profoundly the attitudes of work-

force, trade unions and even government. Often multi-national enterprises can effect economic changes so quickly and effectively that the state is rendered helpless to intervene. Similarly, the power of the state has been eroded by the increasing importance of "supra-state" organisations such as the European Community (EC), the International Monetary Fund (IMF), the World Bank, and even the United Nations.

Witness again the influence of the EC over the Government's negotiations with British Aerospace in the Rover group sale. The deregulation of

trade barriers within the EC after 1992 will also have a profound impact upon economic performance. "Supra-national" organisations, both economic and political, have clearly superseded the state in many spheres of activity. Let us hope that the new Institute for Policy Research accepts these developments — and does not end up like King Canute on the beach, with his hand held high and the tide coming in.

Aaron Negad,  
1 Endsleigh Court,  
Upper Woburn Place, WC1

## Incentive to under-invest

From Mr A. Badger.

Sir, Your perceptive editorial about regulating a privatised water industry (July 21) missed drawing an important conclusion.

The Government has nailed its flag to the mast of price regulation on the grounds that it prompts efficiency. But as you point out: price control coupled with an obligation to provide profits to shareholders also creates a direct incentive to under-invest.

In a capital intensive business like water, the scope for efficiency improvements which would provide a meaningful benefit to shareholders — or customers — is limited. On the other hand, the prospects for getting away with under-investment, when 70 per cent of

the assets are buried, must be pretty good unless close regulatory scrutiny is imposed.

Resolving the conflict of interests of customers and shareholders in an essential service like water is an old problem. The existing 28 private statutory water companies do not have a regulator, but for over a century they have satisfied customers with their service, and investors with a fair, albeit limited, rate of return.

Surely this should be the way forward rather than the unthinking adoption of the Government's standard privatisation model?

A. Badger,  
34 Ruskin Close,  
Rugby, Warwickshire

## Dramatic power of the City

From Mr Geoffrey Gardiner.

Sir, May I add to comment made on the causes of the October 1987 stock market crash?

In 1974 the crucial factor seems to have been the insurance companies' attempt to become net sellers of company securities, briefly allowing the City to play a role of mopping up the regular sales made by the personal sector to cover capital taxes and to invest in single premium insurance bonds.

In the last quarter of 1987 it seems to have been the personal sector sales that damaged the UK equity market — but it was the British institutions which wrecked the overseas markets with sales totalling a staggering \$50m. Never, surely, has the power of the

City of London been more dramatically demonstrated.

All the institutions did the same in 1987, which may reflect the greater concentration of investment decisions making since 1974; a very disturbing development.

The figures give a clue for the failure of the housing market to drop with the stock market. The personal sector's enhanced liquidity went into the building societies, causing a boom in the first quarter of 1988 to be 45 per cent up on the first quarter of 1987. The institutions' enhanced liquidity may have been repatriated, causing the pound to rise, and a flood of imports.

Geoffrey Gardiner,  
3 Mollie Potts Close,  
Knutsford, Cheshire

## The election has changed Mexico's political landscape

From the Mexican Ambassador.

Sir, This year's election has been the most contested in recent Mexican history.

Since polling day, all political parties have maintained a high public profile, through a lively debate and nearly daily public rallies. All these are being conducted in a peaceful, orderly way. Various political parties have lodged complaints about alleged irregularities and the legal process to review the evidence presented is already underway. A newly-established independent tribunal is considering the complaints and will rule about them in the next few weeks. Later on, the electoral colleges of both houses of

the Congress will review the election process in its entirety.

All political forces are living up to their commitment to use only legal procedures to present, publicise and defend their particular opinions and positions about the election results. Parties and authorities are operating within a constitutional framework that no one wishes to undermine.

However, the results themselves, as announced by the Federal Electoral Commission, bear witness to the broad openness and fairness of the election, conducted with the participation of the representatives of the political parties involved. The results were not only in line with the expecta-

tions arising from the opinion polls, but they went even beyond in altering the balance of political forces in the country.

Mexico's political landscape is a new one from July 6. The long-dominant ruling party, although retaining a majority in the presidential vote, is now part of a more balanced, pluralist scheme, in which other parties will play a larger role than in the past. The richness of political options open to the country cannot be contained any longer in a single dominant party system, or even a bipartisan one. This new balance of political forces will be fully reflected in the composition of the legislative bodies, particularly in the lower house

of the Congress, where the different opposition parties will hold more than two fifths of the seats.

The recombination of political forces arising from the July 6 election has been the answer that the Mexican electorate has given to its own aspirations for political change. Restoring economic growth, on a sound and sustainable basis, and reducing inequality, appeared clearly as the other major demand. The wide implications of this demand for change, in terms of new approaches to international economic and financial cooperation, cannot be ignored. Jorge Eduardo Navarrete, Mexican Ambassador, 8 Balkin Street, SW1

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# FINANCIAL TIMES

Friday July 29 1988

**TAYLOR WOODROW**  
TEAMWORK IN HOMES WORLDWIDE

## Iran and US signal closer ties

Andrew Gowers reports on the possibility of rapprochement after a decade of hostility

THE signals coming out of Washington, New York and Tehran are confused, but they all convey a similar impression: that after nearly 10 years of mutual incomprehension and hostility, the US and Iran are groping their way towards a new relationship, with potentially profound implications for the politics of both countries, for the Western hostages in Beirut and for America's dealings in the Middle East.

Since Iran suddenly accepted the principle of a Gulf ceasefire last week, the Reagan Administration has made a series of overtures to the Tehran leadership, calling on Iran to establish a "single authoritative channel" for a dialogue with Washington and for talks on the plight of American hostages held by pro-Iranian groups in Lebanon.

The response from Tehran, despite the regime's unremitting anti-American rhetoric, has been surprisingly conciliatory. And in New York, Mr. Javier Perez de Cuellar, the UN Secretary-General, has sought to capitalise on the rapidly changing political climate by bringing the hostage issue into his negotiations on a ceasefire with Mr. Ali Akbar Velayati, the Iranian Foreign Minister.

Gen. Vernon Walters, Washington's UN ambassador, said on Wednesday night that he

believed the Secretary-General's good offices could help. "What was ineffective in the old days may not be so today. Things are moving, things are changing," he proclaimed.

The Iranian peace move appears in effect to have broken a much bigger logjam. Washington and Tehran were unable to improve relations so long as the latter flouted the UN Security Council's calls for a ceasefire, and so long as the US was perceived to be tilting towards Iraq in the war.

The hostages, hitherto the useful tool of Iranian foreign policy, were also the principal victims of the stand-off. Conversely, with Iran now determined to pursue the objective of better ties with the West, the Beirut captives began to look more of a hindrance than a help.

The US has insisted throughout that there is no question of a direct deal with Iran for the release of the hostages. That may be true in the strictest sense. The hostages, given the humiliations of the Iran-Contra affair-but it is also beside the point. For as Iranian spokesmen have made clear over the past week, a general warming of relations between the two countries is bound to have an effect on Iran's attitude to securing the captives' release.

For the Reagan Administration in an election year, these

developments hold distinct promise. A public opening to Iran would help exorcise the ghosts of Washington's secret trading of arms for hostages in 1985-86.

The State Department has in any case recently been showing greater interest in re-establishing representation in Tehran. It wants to redress the

perceived tilt to Iraq, which has been heavily criticised in Congress, and to forestall the possible growth of Soviet influence in such a large and strategically placed country. It would also like to be able to argue that its high-profile policy in the Gulf over the past year has been a success.

The return of the nine Americans held in Beirut would be a big boost for the presidential election campaign of Mr. George Bush, the Vice-President and certain Republican candidate. The Democrats are already displaying sensitivity to the hostage factor, as witnessed by the Rev. Jesse Jackson's attempt to set up a meeting with the Iranian Foreign Minister this week. At the same time, politicians will have to tread carefully in view of the anti-Iranian sentiment in the US, which remains strong.

Pragmatists in the Iranian leadership such as Mr. Ali Rafsanjani, chief of the armed forces, having embarked on the gamble of pursuing a diplomatic solution to the war, have just as much to gain from a rapprochement. They hope it may give them access to the \$12bn which the Shah's Iran paid for planned weapons deliveries from the US and then never received after the

Islamic revolution. The US can help Iran in the current moves to end the war by pressing Iraq to exercise restraint. Washington will undoubtedly have a say in the composition of the impartial inquiry into the origins of the war which the UN will set up under resolution 596 and which Iran desperately needs as a face-saver.

Mr. Rafsanjani said last week that Iran had already received assurances from an unspecified party that "the formation of this committee will be such that it will truly seek justice."

Another potential gain that Iran may reap from its current diplomacy is the eventual reduction of the US naval presence in the Gulf. This would help to minimise a big source of friction between the two countries over the past year.

All this amounts to a formidable list of reasons why Iran may want to "have this problem [the hostages] out of the way," as Mr. Perez de Cuellar put it on Wednesday. If so, Iran's assertion that it has influence over the Beirut kidnappers—who, after all, have their own political agenda, including the demand for the release of 17 Arab prisoners held in Kuwait—is about to be put to a definitive test.

## THE LEX COLUMN

# Mixed results from the chemistry set

Like it or not, ICI is still stuck with the role of market bellwether. The group would doubtless have preferred not to bring out interim results on a day when sterling shot through DM\$2.0. As it was, the market had to temper its reaction to excellent figures with the reflection of how vulnerable British industry still is to sterling's relationship with the EMS currencies.

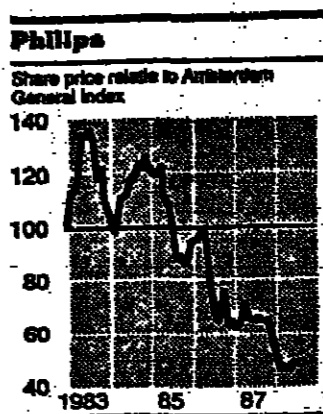
The figures also have their topological suggestion of overbought. Once more, the supposedly unfashionable bulk chemicals are hammering ahead, while profits from specialty and consumer products—hit by dollar conversion, to be sure—are actually down. The performance in commodities is again the result of rising demand combined with tight supply; not wholly illogical, but a new wave of capacity, which, in the extreme case of polypropylene, is leading to the first signs of a crack in prices despite a rise in European demand this year of 13 per cent.

That said, there is surely no question of ICI being open to a repeat of the grim days of the early 1980s. The group drop in profits from dollar translation in the half year was concentrated in specialties like pharmaceuticals, but the underlying performance is plainly still strong. Again, much of this year's profits improvement can be attributed to agrochemicals, whose cycle, if it exists, is certainly distinct from that of industry.

At 102p, and assuming full year profits of £1,450m, the shares are at the lower end of their rating relative to the market. At the peak of an unusually long cycle, this is scarcely surprising. The market is waiting for clarification on the outlook for currencies, and above all, on ICI's behaviour in an actual downturn. Come the time, the shares will probably look cheap; but there is no hurry about it.

### Barclays Bank

Barclays bristles at the idea that it is using its \$320m rights issue to buy a bigger share of a heavily overbanked market, but its denials sound rather flimsy. It is one thing to stress that the average lending margin over base rate is higher than it was a year ago, but the sharp drop in domestic net



interest margins and a 30 per cent plus rise in sterling lending tell a different story. Clearly, Barclays is wasting no time in rapidly expanding its balance sheet, even though it means buying in more expensive wholesale money to satisfy its ambition of regaining the title of Britain's biggest and best bank as quickly as possible.

Shareholders can only hope that the management has not forgotten its earlier promises about improving profitability, since the short-term consequences of this ambitious bid for market share are proving a trifle expensive. Domestic banking profits are marginally lower in the first half, compared with the immediately previous six months, and it is possible to explain away almost all of the 17 per cent increase in first half profits by deducting the profit on the sale of the Californian bank, a one-off contribution from \$1 and a \$45m drop in provisions.

Admittedly, the last item reflects an improvement in the quality of the loan portfolio, and lower interest rates plus an earlier than usual pay increase have depressed profits by say \$45m. For the moment, a prospective yield of over 7 per cent is the only support for the shares; though if the management's strategy is to be believed, profits of over £700m can be expected in the second half.

### Philips

Those companies whose horizons were darkened by McKinsey's recent critique of the UK electronics industry may be tempted to take comfort from yesterday's gruesome interim results from Philips. The British industry may be stuck in low-growth areas like defence and telecommunications, but

Philips has managed to be big in high growth areas like consumer electronics and microchips, and still produce a miserable profit record.

On its own, though, Philips' plight does not necessarily disprove the argument. The Dutch company may not be unique in Europe in the scale of its management errors, but it must rank among the industry's worst offenders, so it would be unwise to draw too many strategic conclusions from its experience. Philips is not in trouble primarily because it is in consumer electronics and microchips—it is in trouble because it is Philips.

Or so the argument used to run. But now that the group has embarked on a rationalisation programme involving major organisational changes, and up to 20,000 job losses, the market is expecting to see margin improvement and an increase in the dismal 5.7 per cent net return on assets achieved last year. These expectations have, however, been around for a fair while already, and yesterday's 48 per cent decline in net income per share for the half year did little to support them. Indeed, Philips looks likely to meet its target of flat full year earnings only if it can generate income from joint ventures or asset sales; and its recent record in this area does not inspire much confidence either.

### US LBOs

Many of the more highly leveraged US buy-outs have always looked like accidents waiting to happen; nevertheless the disclosure that Revco, the US drugstore giant, has filed for the protection of the bankruptcy courts is a chilling reminder of the risks that lie just beneath the surface in the US financial markets. As Morgan Stanley recently demonstrated when it more than doubled its second quarter profits by taking a \$120m gain on its investment in Cain Chemical, the rewards on these types of transactions can be immense. But so are the risks, and the enthusiasm of Wall Street investment bankers for structuring deals with minimal equity and wafer-thin interest cover has been haunting the Federal Reserve for some time. The only consolation is that if the recent uptick in interest rates is followed by a serious recession, the investment banks will be able to earn plenty of fees rescuing their clients.

## British life companies rescue City watchdog

By Nick Bunker and Eric Short in London

A GROUP of 50 life insurance companies have had to bail out one of the UK financial services industry's new watchdog bodies with a cash injection likely to total more than £1m (£1.7m).

The money is understood to be needed because of cash flow difficulties encountered by the Financial Intermediaries, Managers and Brokers Regulatory Association (Fimbra), the self-regulating organisation (SRO) responsible for policing small independent investment brokers and intermediaries.

Mr Ray O'Brien, Fimbra's chief executive, would not disclose actual figures relating to Fimbra's present finances yesterday, but he confirmed that without the injection its members would have faced "an immediate increase in fees between one-quarter and one-third."

Fimbra has been plagued with problems, both financial and administrative, ever since it started getting to grips with its role in the investor protection framework set up under the 1986 Financial Services Act.

In particular, it admitted yesterday that it has underestimated the costs of authorising and monitoring its diffuse membership, which is expected to be around 9,500 individual investment businesses by the end of this year.

The companies which have thrown a life-line to Fimbra are all members of the Independent Market Assistance Group (Imag), which was formed to help maintain independent intermediaries as an important marketing channel for the life insurance industry.

Imag last year helped Fimbra by funding a telephone helpline for Fimbra members and seconding staff to the SRO. The cash injection was welcomed by Mr David Walker, chairman of the Securities and Investments Board, the financial services sector's chief watchdog.

He said the move "would enable Fimbra to develop new methods of funding on a secure and long-term basis."

Mr O'Brien would give little indication as to when Fimbra would be able to publish the results of a planned review of its funding arrangements. "It will be months, rather than weeks, but not years", he said.

Background, Page 6

## Rioting in Burma leaves one dead, five wounded

By Robin Pauley, Asia Editor, in London

A CURFEW was imposed yesterday on the northern Burmese town of Myittha after an outbreak of rioting left at least one person dead and five wounded.

It was not clear whether the riot was in response to the country's leadership changes or was a continuation of ethnic unrest between Buddhists and Muslims.

The government-controlled News Agency of Burma said mobs destroyed buildings including two Moslem-owned tea shops and attacked police with stones and catapults. Police fired shots to disperse rioters who had destroyed two tea shops and a third building.

The internal situation in Burma is becoming increasingly confused after resignation of U Ne Win from the presidency and his replacement as

head of government by a former army colleague, Sein Lwin, who also declared himself President.

Sein Lwin is deeply unpopular and was in charge of the riot police which violently suppressed previous riots including one in Proma, Ne Win's home town.

Proma has been under martial law since July 22 after six days of mob violence which reportedly started between a Buddhist customer and a Moslem tea shop owner. Several similar minor quarrels have in recent months turned into large anti-government riots, often led by students protesting against one-party autocracy and the mounting economic crisis.

Western diplomats said Sein Lwin's rise could "fan the fires of political protest". J-a-f-f-f-f

have appeared in recent days urging continued protest.

Amnesty International, the London-based human rights organisation, yesterday urged Burma's leaders to investigate alleged brutality by the authorities during the suppression of the riots in which up to 280 are reported to have died.

Amnesty said steps taken to investigate abuses had so far proved "inadequate." It has repeatedly expressed concern about evidence "of a consistent pattern of political killing, torture and arbitrary detention" by Burmese security forces in ethnic minority areas.

Amnesty said that limited information available included evidence that the army and police in Karen, Mon, Kachin, Shan and Arakan states committed "severe violations of human rights."

## Guinness appeal rejected by court

By Raymond Hughes in London

GUINNESS, the international brewing and spirits group, appears more likely to have to pay an estimated £100m (£172m) to former shareholders in Distillers as a result of a decision by three British Court of Appeal judges yesterday.

They ruled that the Takeover Panel, the UK mergers watchdog, did not act unfairly or unlawfully when it decided that Guinness broke the Takeover Code by its involvement in a concert party purchase of 10.6m Distillers shares in April 1986, as the £2.7bn battle for the Scottish drinks group between Guinness and Argyll Group reached its climax.

However, although the judges were unanimous that there had been no injustice to Guinness in the Takeover Panel ruling, and that the company's appeal against a High Court judgment upholding the decision should be dismissed, they were critical of the way the panel handled the matter.

Guinness is not legally obliged to follow the ruling of the Takeover Panel, but the panel can apply sanctions against companies which defy its rulings by denying them "the facilities of the City", in particular corporate finance advice and possibly even a listing on the Stock Exchange.

Lord Donaldson, the senior appeal judge, questioned the panel's wisdom in refusing to defer the hearing to enable it to make "more vigorous attempts" to get officers of Bank Leu, the Swiss parent of Pipetec, the company with which Guinness was alleged to have acted in concert, to attend the hearing.

In the event Bank Leu had made a statement amounting to a complete admission that there had been a concert party, which had been "the last nail in the coffin," he said.

Lord Justice Woolf said that the panel's decision to rush the investigation so as to obtain an early hearing, "while not unlawful, was insensitive."

Lord Justice Lloyd said of the panel's refusal to grant Guinness a stay of judgment to prepare its defence: "While it was not fair to it, it was having regard to what Guinness already knew of the case against them."

Guinness was refused leave to appeal to the House of Lords, Britain's upper parliamentary chamber, but said later that it would consider seeking leave from the Law Lords themselves, the highest UK court of appeal.

The panel said, after the High Court judgment in March that it would wait until after any appeal before considering the financial consequences of its decision, which was based on the Takeover Code principle that all shareholders in a target company must be treated equally.

As the purchase price for the 10.6m shares was substantially higher than the cash alternative in Guinness's offer, the company faces having to compensate former Distillers shareholders.

Saunders challenge, Page 6

## US reveals locations of five chemical weapons plants

By William Dullforce in Geneva

THE US yesterday disclosed the locations of five chemical weapons plants and explained in detail how it would go about destroying them. The declaration by Mr Max Friedersdorf, the US representative, to the 40-nation UN Conference on Disarmament, was intended to speed up talks on an international convention banning chemical arms.

Mr Friedersdorf endorsed a revised Soviet proposal for experimental testing of procedures to be used in conducting inspections of industrial facilities. He also reported that representatives of the US, European, Canadian and Japanese

chemical industries were preparing recommendations for monitoring private sector plants which could facilitate agreement on a ban.

One of the remaining obstacles is how to reconcile inspection of production plants with the need to protect confidential business information.

The US listed production facilities for chemical arms at Rocky Mountain Arsenal, Colorado; Newport Army Ammunition Plant, Indiana; Pine Bluff Arsenal, Arkansas; Muscle Shoals, Alabama; Aberdeen Proving Ground, Maryland.

Mr Friedersdorf urged other

nations to disclose their facilities. About a dozen countries participating in the UN conference had not yet declared whether they possessed weapons, he said, suggesting also that some earlier denials were "inaccurate."

Calling for a truly global prohibition on chemical weapons, Mr Friedersdorf said the greatest risk of their use now lay outside Europe.

An important breakthrough in the Geneva talks appeared to have been made last year, when the Soviet Union accepted the principle of on-site and challenge inspections of chemical weapon facilities.

## Inquiry clears crashed Airbus

By George Graham in Paris

THE investigation into the crash of the Airbus A-320 airliner which killed four people in north-east France last month has cleared the aircraft itself of responsibility for the disaster.

In a report submitted to the French transport minister yesterday, a commission of inquiry ruled out any technical shortcomings in the A-320, the latest in the Airbus range of airliners, which was performing a demonstration at the Mulhouse-Habsheim airshow.

The principle factor in the crash, according to ministry officials, is that the aircraft was flying at only 10 metres above the ground. The French civil aviation authorities earlier this week issued a reminder to airlines that low altitude flights are forbidden below 50 metres, or 450 metres when flying on instruments.

In addition, the Airbus was flying at 119 knots, when the flight manual states a minimum speed of 140 knots, the motors had been cut to less

than 10 per cent of their maximum thrust for more than 30 seconds; the aircraft was angled at 17 degrees, and the alpha protection system designed to boost the motors automatically below 100ft had been switched off.

The report indicates that the motors responded normally to the throttle when the pilots tried to accelerate.

The parallel judicial investigation may eventually result in charges against the pilots.

## UK prices to increase

Continued from Page 1

tion in many countries. The UK is particularly vulnerable to any such resurgence, with our exceptionally rapid rate of growth."

Noting that monetary conditions had been tightened by raising interest rates sharply, Mr Lawson said this would "moderate the expansion of demand and in due course enable inflation to resume its downward trend."

In a pointed reference to recent Whitehall discussions about the composition of the

retail prices index, he said that "thanks in large part to the fact that our retail price index, unlike those of most other countries, has the mortgage rate as one of its major components, recorded inflation will go up further before it comes down again."

Mr Lawson took the opportunity to praise the Prime Minister, in terms matching those with which she lauded him a week ago.

## WORLD WEATHER

Area	Temp	Wind	Area	Temp	Wind	Area	Temp	Wind	Area	Temp	Wind
Algeria	28	SE	London	18	SE	Madrid	28	SE	Paris	18	SE
Amsterdam	23	SE	Lyons	18	SE	Rome	28	SE	Stockholm	18	SE
Antwerp	23	SE	Munich	18	SE	Saint Petersburg	28	SE	Toronto	18	SE
Birmingham	23	SE	Naples	28	SE	Seoul	28	SE	Washington	18	SE
Bombay	28	SE	New York	28	SE	Singapore	28	SE	Wellington	18	SE
Buenos Aires	28	SE	San Francisco	28	SE	Sydney	28	SE	Yokohama	18	SE
Calcutta	28	SE	Tokyo	28	SE	Taipei	28	SE			
Cairo	28	SE	Ulaanbaatar	28	SE	Yokohama	18	SE			
Chongqing	28	SE	Vladivostok	28	SE						
Dacca	28	SE	Yokohama	18	SE						
Dhaka	28	SE									
Hankow	28	SE									
Hong Kong	28	SE									
Kobe	28	SE									
Manila	28	SE									
Medan	28	SE									
Osaka	28	SE									
Perth	28	SE									
Port of Spain	28	SE									
Rangoon	28	SE									
Reykjavik	28	SE									
Singapore	28	SE									
Sourabaya	28	SE									
Taipei	28	SE									
Tientsin	28	SE									
Ulaanbaatar	28	SE									
Vladivostok	28	SE									
Yokohama	18	SE									

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## SECTION IV

FINANCIAL TIMES  
SURVEY

More than 40 new satellite television channels are due to be launched over the next two years, and

there are plans to manufacture a million low-price domestic receivers. But will viewers want the programmes that will be on offer?

Raymond Snoddy reports

## Programme of expansion

SATELLITE television, after years of delays, disappointments and losses, appears to be poised on the edge of significant growth — growth that could mean a large increase in the number of television channels available to viewers and the arrival in volume of a new electronic consumer product, the direct-to-home receiver.

Between now and early 1990 television satellites capable of broadcasting more than 40 channels direct to dish aerials on individual homes are scheduled for launch.

The surge in interest was best symbolised last month when Mr Murdoch, the Australian-American publisher, stood amid swirls of dry ice and inspirational music at a London press conference and announced plans for four television channels on Astra, the Luxembourg-based satellite project due to be launched in November.

In addition to upgrading Sky, the general entertainment channel launched in 1981, Mr Murdoch said he was launching a film channel, a news channel and, in a joint venture with other European broadcasters, a sports channel.

But it was not just the four channel package that created headlines around the world. Not only would the channels

be "free" — advertising financed — but Mr Alan Sugar, the electronics entrepreneur who has made a fortune by making products such as the word processor affordable to the mass market, pledged that the retail price of the receiving equipment would be £199. As many as 1m receivers would be produced in the first year, and instead of sophisticated and more expensive satellite standards such as D-MAC, Mr Murdoch would use PAL, the existing television standard.

It is too early to say what the effect of Mr Murdoch's plans will be on British Satellite Broadcasting, the UK's £825m direct broadcasting by satellite project scheduled to begin its three channel service before Christmas 1989. BSB is a very different project which will use D-MAC receivers, be funded by a mixture of advertising and subscription revenue and will be spending more than £100m a year on programmes, a high proportion specially made by independent producers.

According to a Sky memorandum, the channel is planning to pay \$3,500 an hour for series for its upgraded service and \$4,000 an hour for TV movies and mini-series. "You can't even buy the Lone Ranger for that kind of money," commented Mr Gunmar Rugheimer, managing director of Galaxy, BSB's general entertainment channel.

Mr Anthony Simmonds-Gooding, the BSB chief executive, envisages BSB as the "third force" in British broadcasting after the BBC and ITV. If consumers do, however, buy the £199 receivers in large numbers it could put a serious dent in BSB's hopes of reaching 400,000 homes in its first year.

To further complicate the picture Mr Robert Maxwell, WH Smith and British Telecom have brought together a third block of existing channels already available on low power telecommunication satellites into a single package for transfer to a medium power direct-to-home satellite. The plan

is either to transfer them to Astra — although they will use the D-MAC standard because the aim is to offer them as a subscription package — or to wait for the launch of Eutelsat II, a new 16-channel television satellite due to be launched by the European Telecommunications Satellite Organisation early in 1990. At the moment the group appears to be leaning towards Eutelsat, although no final decision has yet been taken.

Mr Ted Turner's 24-hours a day news channel, Cable News Network, is, however, likely to opt for Astra, although it has not been decided yet whether to use PAL or D-MAC.

For the consumer and the electronics industry there is now the real possibility of

three different satellites with three different standards. Although the manufacturers say they will be able to deliver motorised equipment that could pull in pictures from all the main satellites, the cost is unlikely to be much less than £800.

The proliferation of new channels and dishes could provide a boost for cable television which has the capacity to collect all the available satellite channels and distribute them to the consumer as a retail service. By law the modern cable networks, now with a total of 45,000 subscribers, have to carry the three BSB channels.

Already there are more than 20 channels available on low power satellites over Europe, largely delivered to the con-

sumer by cable, although none are believed yet to have broken even. The available channels include WH Smith's Lifestyle and Screenport channels; Premiere, the film channel; Super Channel, owned by Virgin and a consortium of ITV companies; and RAI Uno, the first Italian channel re-broadcast by satellite for Italian expatriates throughout Europe.

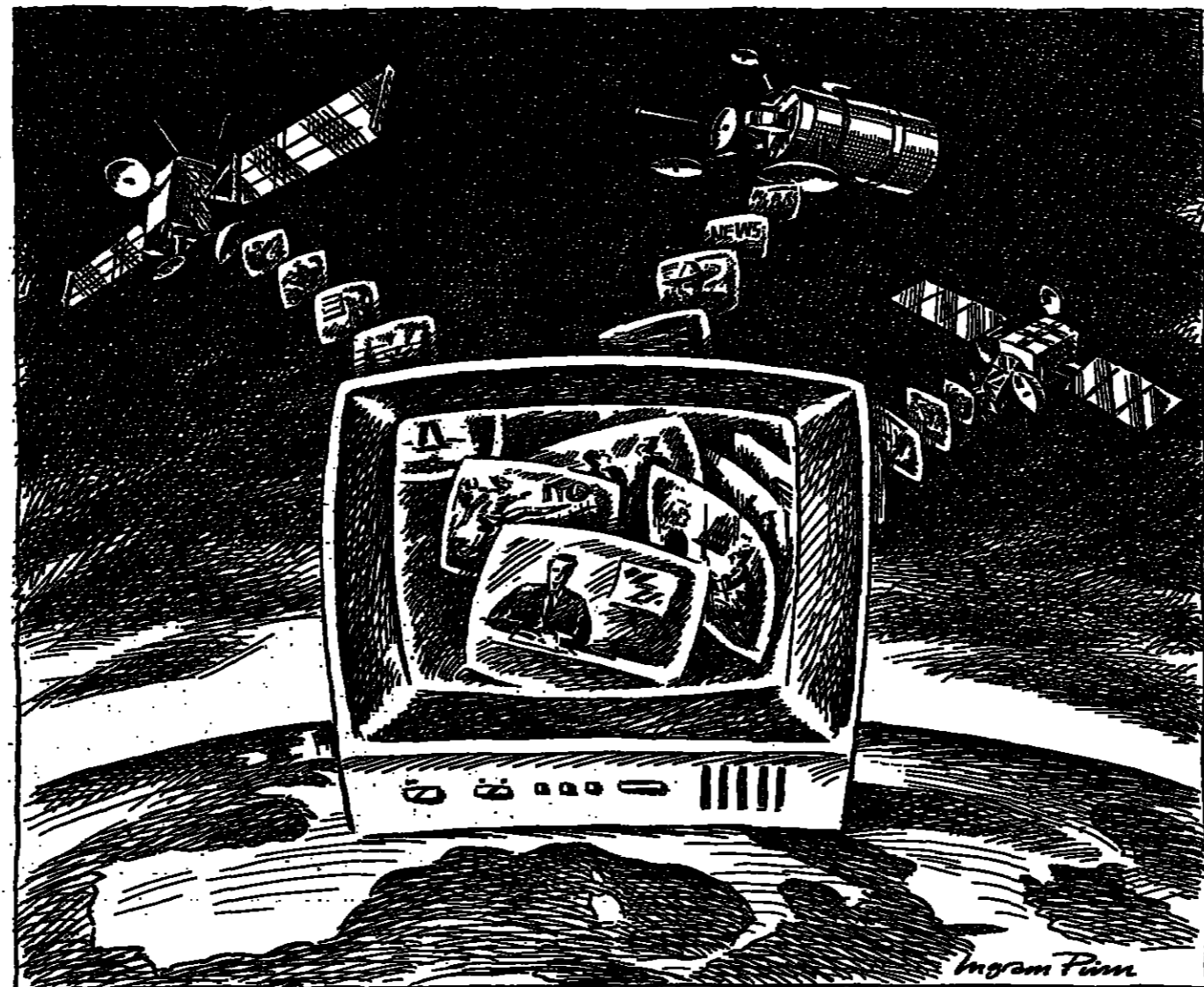
The creation of a new direct-to-home market will, however, come at the very time when there is an enormous intensification of competition for the viewer's time and money.

In the UK, commercial television is now broadcasting 24 hours a day and the government is likely to give the go-ahead for a fifth conven-

British Satellite Broadcasting: Ambitions to be the best Launch vehicles: French have a head start 2  
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# Satellite Broadcasting

tional television channel, and possibly even a sixth. In the past two years the proportion of homes with video recorders has risen to more than 50 per cent and the UK video rental market is now estimated to be worth more than £500m a year.

Against such a background, Frost and Sullivan, the US consultants, forecast in a study of the market for DBS in Western Europe published earlier this year that by 1997 about 19.5m households in Europe would be able to receive satellite television on their own receivers or on SMATV systems — delivery to a single antenna servicing a block of flats. About 9.5m would be receiving DBS new channels through individual home reception equipment. The report was published before Mr Murdoch's announcement.

Mr Patrick Whitten, managing director of CIT Research, a UK communications consultancy which has been following the development of cable and satellite since 1983, is much more pessimistic.

"By 1998 we think nearly 30m homes in Western Europe will receive satellite television but only about 14.2m will be received direct, the rest will be on cable which we see growing at 9 per cent a year," said Mr Whitten.

In the UK Mr Whitten, who says his projections assume that many of the things that could go wrong actually do, believes that 2m to 3m homes will be receiving satellite television but only 500,000 of them direct with their own equipment.

Mr Whitten points out that last year the main four satellite channels, Sky, Super Channel, Sat 1 and RTL Plus, had total revenues of 61m Ecus (\$40m) and total losses of 130m Ecus (\$86m). Certainly, until now, the fate of the national high power DBS satellites has not been a happy one. More than 10 years after the World Administrative Radio Conference allocated five DBS channels to most nations, not a single European DBS project has actually begun broadcasting.

The West German TV-Sat, scheduled to broadcast two private and two public service channels, was successfully

launched last November but the satellite never worked properly and eventually had to be declared a total write-off by its owners the German Bundespost.

The second TV-SAT is scheduled to be launched next summer, although, in the meantime, the commercial channels RTL Plus and Sat 1 have been dramatically extending their audience by broadcasting on normal broadcasting frequencies in addition to cable television. Earlier this month the private broadcasters got access for the first time to terrestrial frequencies in the important area of North Rhine Westphalia and its 22m population.

The deal, which gives the commercial broadcasters access to spare frequencies does, it is believed, also include an obligation to use a German DBS satellite when one becomes available.

In France TV-SAT's twin TDF-1 is still sitting firmly on the ground although it is due to be launched by Ariane in October. Apart from the fact that it will carry la Sept, a cultural channel, and possibly 16 channels of digital stereo radio, final decisions have not yet been taken.

There seem to be no takers at all for Tele-X, the \$170m Swedish, Norwegian and Finnish DBS satellite for which neither broadcasters nor telecommunication operators seem prepared or able to pay.

In Ireland, Atlantic Satellites, a company 80 per cent owned by Hughes Communications of the US, has been awarded a 10-year contract to operate an Irish DBS service which would, in effect, be aimed at the UK market. It is not clear when, or even if, such a service will be launched.

The number of people who will be persuaded to buy new domestic equipment because of the technological beauty of satellites will be limited indeed. The battle will be won or lost on the quality of the programmes: the new broadcasters will need to produce programmes for which the consumer is prepared to pay, or they need to be attractive enough to provide audiences too interesting for advertisers to ignore.

Modern technology provides a vivid contrast with the tools available 900 years ago when William the Conqueror compiled his Domesday Book survey of Anglo-Norman England.

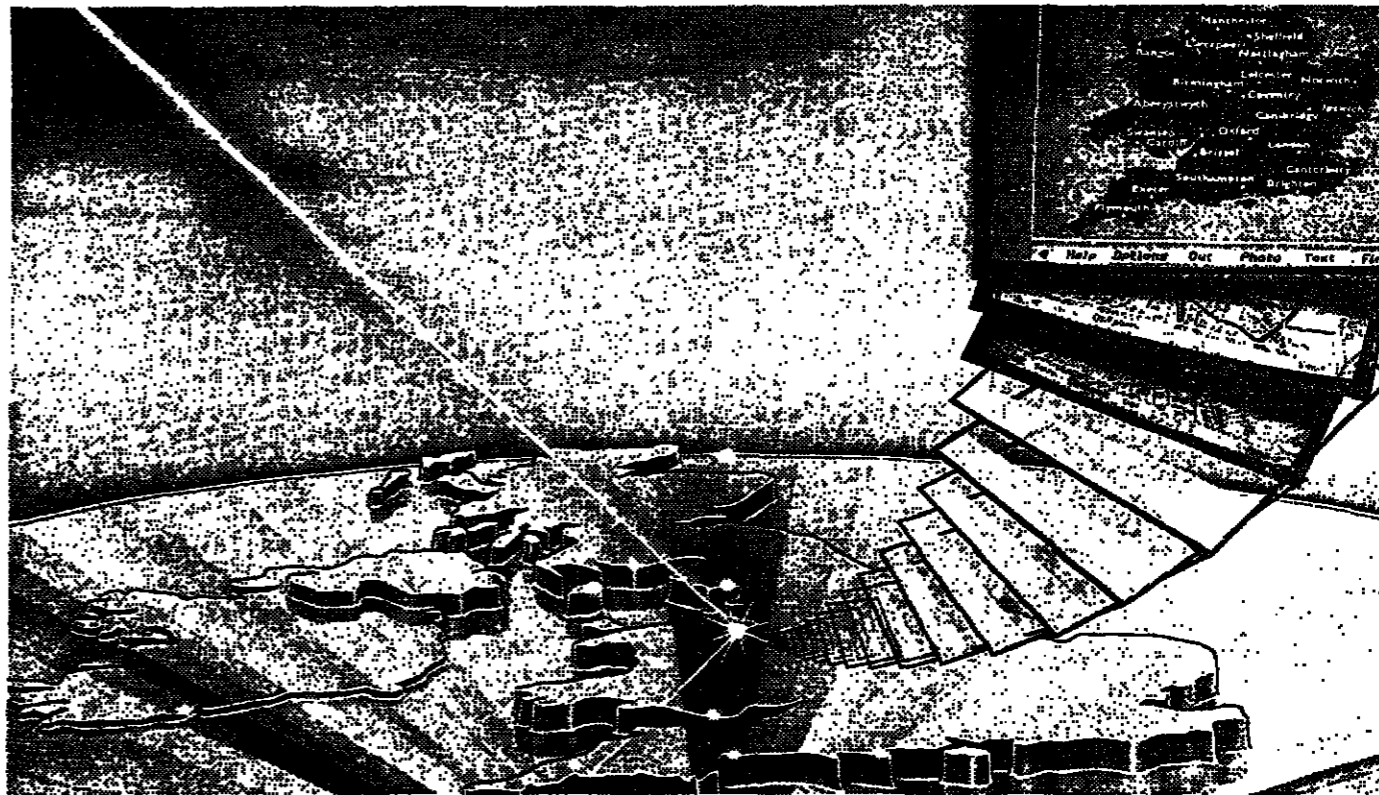
For if the British Broadcasting Corporation's 1986 Domesday Project was also published in book form, it would fill over 300 volumes and take seven years to read.

Instead, this ambitious survey of 20th century British life, comprising 250,000 pages of text, 50,000 photographs, 24,000 maps, 60 minutes of video and millions of statistics, is 'printed' on only two IV-ROM (LaserVision-Read Only Memory) discs of the Advanced Interactive Video (AIV) system.

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Astra, the satellite chosen by Mr Murdoch, should be operational by the end of the year

# The battle to be 'hot-bird' is far from over

ON NOVEMBER 4 this year, if all goes according to schedule, the European space rocket Ariane will blast off from French Guiana and place Astra, a dedicated 16-channel television satellite, into orbit.

By December the satellite, owned by the private Luxembourg company Societe Europeenne des Satellites (SES), should be operational and capable of broadcasting its channels over much of Western Europe but in particular to the three main European markets of the UK, West Germany and France.

Astra is noted for being the first medium power satellite to be launched in Europe powerful enough to deliver pro-

grammes direct-to-the home as well as feed channels to the cable television networks of Europe. Its channels can be received over the southern half of the UK with a 60cm dish but for northern England, Scotland and Northern Ireland 75cm will be needed.

It is also the first private sector satellite to be launched outside the Eutelsat and Intelsat international satellite organisations operated for national post and telecommunications authorities.

Since the beginning of June Astra has probably been best known as the satellite chosen by Mr Rupert Murdoch to realise his television ambitions.

On June 8 Mr Murdoch,

whose News International group controls Sky Channel, the first satellite entertainment channel in Europe, announced at a press conference that he had leased three satellite transponders on Astra from British Telecom International with an option on a fourth.

Now Sky would be joined by three new channels - Sky News, Sky Movies and Eurosport, a joint venture with a group of Europe's public service broadcasters including the BBC.

Even more significant for the shape of future competition Mr Murdoch decided to go for the most straightforward approach. It is envisaged that the channels would be "free", financed by advertising, and to keep the cost of the receiving equipment to a minimum the standard used would be PAL, the same as existing television sets in the UK and most of Europe.

By Mr Murdoch's side when the announcement was made was Mr Alan Sugar, the consumer electronics entrepreneur and chairman of Amstrad, who said he expected the retail price of basic PAL receiving equipment, including value-added tax, would be £199, although a more sophisticated version with remote control would cost £254. One million receivers would be available in the first year, he promised, and Ditzons, the consumer electronics retailer, would take 500,000 of them.

At the time, the move seemed decisive. Mr Murdoch had done it again and pulled off the television equivalent of the dramatic move of his British national newspapers to Wapping, leaving the opposition trailing in the wake of another master stroke.

It would, of course, cost a lot to run four channels without

subscription income. But he was acquiring something that could not be bought in any other way. In effect he has acquired a national four-channel commercial franchise, potentially covering the whole of the UK, without having to ask the permission of either the Independent Broadcasting Authority or the Home Office because the signals would be coming from outside UK jurisdiction.

The programmes on Sky, the general entertainment channel which first began broadcasting in 1982, would be upgraded and three new channels created by February.

For Astra the deal, worth £100m over 10 years, broke the logjam of potential users negotiating for transponders but not actually finally committing themselves.

It also gave an enormous boost to Astra's strategy of trying to become the "hot-bird", the satellite that all the channel operators would want to be on and all the dishes would be pointed at.

For British Satellite Broadcasting the Murdoch initiative seemed to spell enormous trouble. Would the high-power, high-cost venture really be able to raise second round financing of £400m for its three channels in the autumn of 1989 when Mr Murdoch was already in the field with four channels and the possibility that a further six English language channels provided by the Maxwell/WH Smith consortium would join them on Astra?

Certainly SES, with paid-up capital of £110m, and shareholders which include Luxembourg banks, financial institutions and Thames Television, one of the largest British ITV companies, is now confident enough about the future to begin preparations for ordering a second satellite.



Mr Rupert Murdoch announces the three new channels. From left: Dr Pierre Meyrat (Director General, SES); Mr Murdoch; Mr Alan Sugar; Mr Marcus Bicknell (Commercial Director, SES)

In the face of suspicion and hostility, the SES achievement so far has been remarkable. The battle, however, is far from over and Astra is not yet the "hot-bird". The Maxwell/WH Smith consortium, which groups Premiere, the film channel, MTV (Europe), Home Video Channel, Screen Sport, Lifestyle and Children's Channel, is talking to Astra but is also impressed by Eutelsat's medium power satellite due to be launched in March 1990. The outcome is far from clear and the consortium, the channels of which are already available to cable networks using existing low power satellites, increasingly feels there is no desperate rush to make up its mind.

If the group were to go to Eutelsat, it would leave a large hole in Astra's programme plans and reduce some of the pressure on SES.

At the moment there seems little interest in Astra transponders in France and it is far from clear whether the German language satellites such as RTL Film and Sat Elva, now concentrating on expanding their audiences by using ordinary land-based transmitters, can be persuaded to climb on board. Two Scandinavian channels will, however, be carried by Astra.

If Mr Murdoch were to find himself alone on Astra - although Astra is confident this will not happen - it is believed that conditions in his contract might allow Mr Murdoch to exit himself.

Mr Murdoch also faces a number of difficulties which may not make Sky Television quite such an immediately devastating threat to SES as might initially appear. There is short to create three new channels by February and because

these will be funded entirely by advertising it is far from clear how attractive the programmes can be.

Sky television will also have to build up its audience very quickly if it is going to attract advertisers although they will welcome the prospect of an alternative to the ITV companies.

There is also the dangers that with several satellite projects under way planning to use different standards - both SES and the Maxwell/WH Smith group plan to use D-MAC rather than PAL - the public may wait a while for the dust to settle before going out to buy satellite receiver equipment. Some see parallels with the video recorder market and the battle between three rival standards until VHS emerged victorious.

Mr Marcus Bicknell, com-

mmercial director of SES, believes that the decision to offer free channels using PAL and subscription channels using D-MAC need not be a problem and might ultimately increase the overall size of the market.

The consumer, he hopes, will begin by buying low price equipment to watch the free channels and then trade up later by adding a module to his receiver to be able to view the scrambled channels.

Both Mr Murdoch and Astra have, however, first to hold their breath that Ariane's recent run of successful launches continues and that everything works on the Astra satellite before the satellite revolution in Europe really gets under way.

Raymond Snoddy

## HARDWARE

### Hopes for orders fade

A FEW years ago there were high hopes in the world satellite industry that plans for direct TV broadcasting services would lead to a rush of orders for space hardware. Many of these hopes have, however, faded.

In the early 1980s it had appeared possible that six or so rival direct-broadcast services could have been operating in the US alone by the end of the decade. That figure could have been added to by a similar number of West European services.

Each service, according to projections in the satellite industry, would have been expected to require two, sometimes three or four, spacecraft designed and built for up to \$80m each.

Such a train of events would have led to a stream of orders for the big satellite companies, which comprise mainly the US giants Hughes Aircraft, Ford Aerospace and RCA (the latter now part of General Electric of the US). European companies such as Aerospaciale, British Aerospace and Messerschmitt-Bölkow-Blohm could also have been in a position to win useful orders.

In the event, the forecasts have turned out to be woefully inaccurate. They have under-

**Business projections often owe as much to wishful thinking as to market research**

lined the impression that business projections in the space industry often owe as much to wishful thinking as to hard-nosed market research.

It is in the US where the optimism on the part of the satellite business has most evidently ebbed away. This may appear unusual given the US' reputation of being in the vanguard, certainly ahead of Europe, in technological progress.

However, special factors have been at work - the most relevant being the common-sense notion that the heavily-cabled US conurbations already provide many of their citizens with quite enough TV. There was, therefore, a natural disinclination by the average consumer to want more in the way of broadcast TV from satellites.

Another factor that has made Europe, rather than the US, a more receptive place for satellite TV services is its relative size. It is easier and cheaper to design a satellite which will broadcast signals over a small area than a large one. This is a factor of the amount of power that the spacecraft's antennas require to transmit TV pictures and sound over a specific region.

Thus, in commercial terms, a TV broadcasting service over a European country or region is more likely to be practicable than one which seeks to operate over a much larger land area that is part of the US.

Satellites for direct-broadcast

TV are intrinsically similar to conventional communications craft that transmit telecommunications traffic. The main difference is that they generally send signals at higher power levels so that the signals can be received by relatively small dish aerials a few feet in diameter.

Conventional communications vehicles, in contrast, send radio waves at relatively weak power levels which can be picked up only by big dishes, along the lines of those which British Telecom operates at Goonhilly Down in Cornwall.

Satellites which use a lot of power are normally big and relatively expensive, a factor of the extra thrust fuel and solar panels which they will need to operate.

The more power they broadcast, however, the smaller and more rudimentary will be the receiving equipment which people will need to obtain signals from the spacecraft on Earth.

Thus, for a direct-TV service operator, there is a trade-off between the sophistication of its space hardware and that of the dishes on the ground that viewers of the operator's programmes will need to install.

Very high power satellites, which transmit at 100W-250W per broadcast channel, will require relatively small aerials of perhaps only 2ft in diameter. A service of this type is planned in the US by Florida-based Dominion Video Satellite, one of the few would-be TV satellite operators in the US still in the running.

A report\* on the satellite industry published by Lloyd's of London says there are 11 US-based satellite TV ventures which are at the planning stage, although the report reckons very few are likely to go ahead as scheduled.

Dominion, which plans to channel religious TV programmes to an audience mainly of evangelical Christians, hopes to start its broadcasts in late 1989. It has an agreement with General Electric to use a high-power satellite which at one time was to have been used by Comsat, a big US satellite operator, for a TV service.

Comsat abandoned this venture in 1984, leaving the spacecraft available for use by Dominion instead. The Florida company hopes that by the end of 1989 up to 500,000 people will have agreed to pay a fee to obtain signals from its satellite.

They will be required to put up a one-off payment of \$175 which will provide them with an unscrambling device to decipher the coded TV traffic from space. The signals will be received with dishes costing about \$475 and made by Radiation Systems, a US electronics company.

Other direct-broadcasting satellites will use less power and will require slightly bigger receiving dishes. In this category are the spacecraft to be used by the Luxembourg Astra service which is due to begin broadcasting later this year. The satellites for this venture are being made by General Electric, while those for another European service due to be started by British Satellite Broadcasting next year, are under construction by Hughes Aircraft.

It seems likely that these two services will be the main commercial TV satellite ventures in Europe by the end of the 1980s. Also due to launched over this period are several other government-sponsored TV satellites, such as the Olympus spacecraft being planned by the 13-nation European Space Agency, but the degree to which these will be used for commercial services is unclear.

\* World Satellite Survey by Roger Stannard, Lloyd's of London, Lime St, London EC3 7EA.

Peter Marsh

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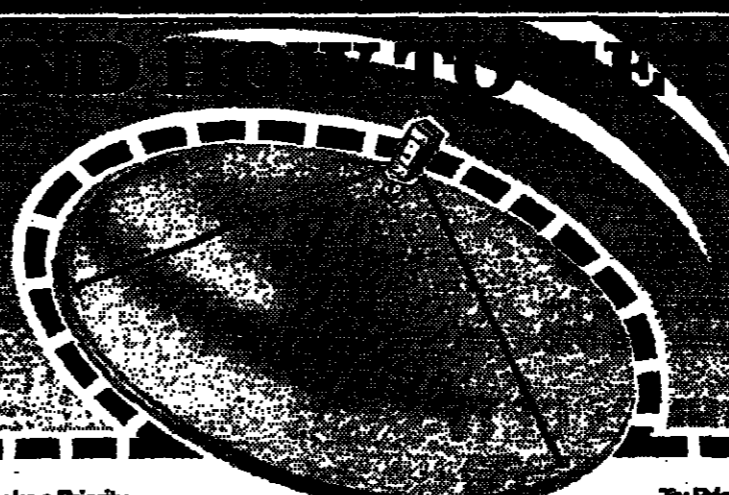
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## SATELLITE BROADCASTING 4

## EUTELSAT

## A second generation

MORE THAN three years ago Mr Andrea Caruso, director general of the European Telecommunications Satellite Organisation (Eutelsat), warned a London conference how inefficient it would be if individual countries in Europe launched their own direct broadcasting (DBS) satellites.

It was too late to do anything about the first round of DBS launches being planned at the time by West Germany, France, the UK and a group of Scandinavian countries. But surely, Mr Caruso argued, there was no time to lose in planning a second generation of satellites, funded on a multi-national basis, to meet all of Western Europe's DBS satellite needs for the mid-1990s.

Earlier this month Eutelsat, an organisation created in 1977, completed technical and economic studies for the project that has been called Euro-pesat. A conference will be

held in Paris this autumn to see how it can be implemented. The proposal is to offer all the 26 member countries of Eutelsat the chance, as the first generation of DBS satellites begins to age, of leasing high power transponders on two 14-channel satellites placed at the same location. A number of overlapping beams would cater for different regional and linguistic groupings, but viewers in each country would all be able to point their 30cm receiving dishes at the same point in the sky.

"The idea that each country should have its own satellite is about to die. The cost is just too great," said Mr Caruso who

concedes, however, that he will need the support of the major European governments if Euro-pesat is ever going to fly. Papers have been sent out and there are already signs that the West Germans and the French could be interested. To launch such an ambitious European project in 1995-96, Mr Caruso says decisions should be taken by next summer.

The Euro-pesat project, although it exists at the moment on paper only, is a perfect example of how Mr Caruso sees the role of Eutelsat, an organisation composed of 26 post and telecommunications authorities. The launching of satellites, he emphasises,

is a costly, high-risk business best tackled by internationally-based and financed organisations.

"The only credible international satellite systems I know of are those backed by a large number of PTTs (post and telecommunications authorities) which consider a satellite to be a link in the chain of global telecommunications networks - and not an end in itself," warned Mr Caruso in a speech earlier this year.

It was clearly a swipe at Astra, the Luxembourg-based private sector television satellite project which threatens to provide real competition to Eutelsat's European satellite monopoly.

With the backing of British Telecom, Eutelsat's largest individual shareholder, Astra's existence was formally recognised on the condition that it offered only television channels and did not market telecommunications services, nor cause material economic damage to Eutelsat. Mr Caruso is not, however, about to hand over Eutelsat's television business, without a fight, to what he regards as an interloper.

Eutelsat has ordered four new medium power satellites at a total price of around \$500m to provide the organisation with extra television and telecommunications capacity from 1990.

"It is now 99 per cent certain that the first two satellites will be used for television," Mr Caruso said. The first 16 channel satellite is now scheduled for launch in March 1990, and the second the following October. Each will be powerful enough to broadcast direct to the home and be picked up on 60-70cm receivers.

Mr Caruso says he has

already signed options for a total of 41 channels backed by 10 per cent deposits. BT, in addition to marketing up to 11 channels on Astra, has taken an option on eight Eutelsat II channels.

The Eutelsat organisation is now directly marketing its channels to a consortium of British programme providers led by Mr Robert Maxwell, publisher of Mirror Group Newspapers, and WH Smith.

The group plans to scramble the block of six channels, including Transfem, the early-run film channel, and offer them as a package direct to the consumer for between £10-£12 a month.

The consortium has not decided whether to join Mr Rupert Murdoch's planned four channels on Astra, or wait until the launch of the first Eutelsat II satellite. Individual members of the consortium say they have been impressed by the Eutelsat bid.

Mr Caruso is now so convinced by the evidence of demand from the market-place for satellite television that he plans to propose a fifth satellite. The final mix between television and telecommunications would depend on demand nearer the time.

Earlier this month the fifth of Eutelsat's first generation of satellites - Eutelsat 1-F5 - was successfully launched by Ariane, ensuring continuity of service until the next generation of medium power satellites are launched.

When it goes into commercial operation in the autumn, Eutelsat says it will have available a total of 38 multi-purpose low power transponders for distributing television channels to cable networks, but also for telephony, data and radio.

With the arrival of both Astra and Eutelsat's medium power satellites there will probably be just as many direct-to-the-home channels.

Raymond Snoddy

## RECEIVING EQUIPMENT

## Gearing up for domestic demand

ENTHUSIASTS have been waiting for the satellite receiver market in the UK, and indeed the rest of Western Europe, to take off for a long time. Until now it has stubbornly refused to do so, although companies such as Megast have, with a careful mixture of supplying to professional as well as domestic users, built a business expected to have a turnover of £5m this year.

Others have not been so lucky: a number of companies which believed the market was just around the corner, and invested heavily in stock, have gone out of business. The most recent casualty was Skycom, one of the better-funded businesses with all the muscle of Mr Michael Green's Carlton Communications behind it. Skycom, which ordered about 10,000 systems, found that the market was simply not big enough for its 1.2m and 1.8m dishes. The remaining stock has been sold off at heavily discounted prices and the company has ceased trading.

Three years after the Department of Trade and Industry made it legal for individuals to have their own satellite receiving equipment in the UK, around only 5,000 of the once-for-all licences have been taken out. The industry believes, however, that the overall size of the market in the UK is closer to 15,000, with more than 30,000 across Western Europe.

With the advent of the higher power satellite projects such as British Satellite Broadcasting, Astra and Eutelsat II, all the leading consumer electronics companies are gearing up for what they believe will be an explosion of an important new consumer product - the direct-to-the-home (DTTH) receiver with a dish aerial any-

thing from 35cm in diameter to 85cm.

The announcement by Amstrad that it will be producing basic receivers at a retail price of £199, which will be able to pick up Mr Rupert Murdoch's planned four channels on Astra, has concentrated many minds and generated some hostility.

Mr Terry Fitt, satellite receiver specialist at Dixons, the retail group which will take around 500,000 of the Amstrad dishes, has no doubts about the potential of the business. "We can see that there will be very heavy volumes sold," Mr Fitt says.

Mr Shaun Orse, sales manager in the UK for NEC, the Japanese electronics company, argues that the Amstrad cut-price philosophy is wrong because when people buy a satellite system they want to be able to receive every available channel. "We do not believe they will be hoodwinked into buying a low-cost system which can only pick up half the output from one satellite," Mr Orse says.

Not only are the three main satellites in different positions in the sky, but three incompatible standards will probably be involved.

There are growing worries in the consumer electronics industry about the current level of hyperbole and the dangers of confusion in the public mind. Many believe both costs and difficulties are being underestimated. For instance, there has to be a clear line of sight from the receiver to the satellites which are in the south-west and south-east sectors of the sky and adjustment has to be accurate within fractions of a degree.

British Satellite Broadcasting has set a target retail price of £200 for its receiving equipment using the sophisticated

D-MAC standard and an equally sophisticated conditional access system produced by General Instrument of the US.

Fifteen companies are being considered as the exclusive BSB suppliers for the first three years of the project. They are: Amstrad; Bosch; Finlux; General Instrument; Grundig; Hitachi; NEC; Panasonic; Philips; Sanyo; Sony; Taitung; Ferguson; Unidant; and Wolsley. Between three and five of the companies will be selected.

Several of the applicants such as Philips and NEC say, however, the price is more likely to be between £400 and £500, rather than £200.

Mr Michael Jones, of Wolsley Electronics, a subsidiary of the AB Electronic Products Group, is more optimistic and believes it might be possible to get closer to £250 for the BSB equipment, although the price of all the components is not yet known.

Like many of the other suppliers, Wolsley is looking at a range of equipment - around £200 for a basic PAL receiver, £250-£300 for a middle-range receiver, and between £700 and £800 for a motorised dish that can move between all the satellites and handle the different standards.

The practical difficulties of receiving all the satellite channels are enormous, he believes. Astra and BSB, Mr Jones points out, will be 50 degrees apart in the sky, so a very wide clear line of sight would be required without anything like trees or walls in the way.

Mr Peter Grimes, a director and general manager in the UK of Uniden, the Japanese communications company which has a turnover of \$500m last year, emphasises he has no intention of rushing blindly into the market. "But I think that satellite television will be phenomenal - one of the biggest markets in the 1990s across the board," he says.

Mr Graham Lawson, managing director of Megast, plans to introduce in January a £265 system with a simple motor which will be capable, he says, of handling both Astra and BSB. A more sophisticated version to receive "the lot" will be around £600.

Mr Lawson, who has been in the business since 1981, will, however, be moving cautiously with plans to increase sales to 20,000 a year. "I am not going to risk everything in search of a pot of gold that may or may not be there," said Mr Lawson.

Raymond Snoddy

## NewMediaMarkets Screen Finance

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## ADVERTISERS

## Backing for ITV's rivals

UP UNTIL recently the advertising community was rather cool and uncommitted about the much-heralded Satellite TV revolution. But Mr Rupert Murdoch's announcement last month that his four Skychannels from the Astra satellite would hit the UK next year forced even the most hard-bitten media buyer to take notice.

For advertisers the important thing about UK satellite TV is that Mr Murdoch, BSB

(and possibly Mr Maxwell) will at last provide an alternative to the ITV/Channel 4 airtime selling monopoly that has shackled them for so long. Advertisers and their advertising agencies continually complain about ITV's spiralling airtime rates, a grouse intensified by ITV's failure to stem its steady decline in audiences. In recent years advertisers have had to pay more for less.

Now there is an agenda for the break-up of that monopoly. Of course advertisers are pushing for the introduction of an independent fifth terrestrial channel, funded by advertising, and for Channel 4's airtime to be sold separately. But these changes are still on the horizon, whereas the DBS invasion looms near.

So will advertisers put up enough advertising money to support all the new DBS channels? The answer is an unequivocal yes, according to Dick Johnson, marketing services director of Procter and Gamble and chairman of the executive of the Incorporated Society of British Advertisers.

Initial low penetration of homes does not perturb advertisers

He says: "TV advertising spending will grow and there will be enough revenue to support all the expected channels - Murdoch, BSB and a new Channel 5."

Advertisers are not perturbed by the DBS channels' initial low penetration of homes compared with ITV's current saturation of 20m viewing rooms. After all, early audiences and revenues for Channel 4 and TV-am were poor but soon picked up.

In a recent study, the Institute of Practitioners in Advertising predicted that, depending on growth, there could be between £676m and £1.2bn (at current prices) available to fund the new channels by 1996. This might include a share for Murdoch "in the region of £150m," assuming he was in 5m homes. Meanwhile BSB expects to claim £276m (some of it from subscriptions rather than advertising) by 1996 on a penetration of 5m homes.

Johnson believes that the Murdoch and BSB channels will be able to attract enough advertising money by "leaching the inflation out of the current ITV system," as he puts it. He backs the IPA view that ITV's income will not drop in the 1990s but level off as the new channels claim their share of the enlarged overall TV advertising cake.

Currently UK TV has a 32 per cent share of all ad spend. But this share could grow, according to Mike Schlagenman, sales director at Super Channel, the Pan-European satellite-to-cable station controlled by Virgin and backed by several ITV companies.

"TV's share could rise to as

much as 40 to 45 per cent, in which case there would be plenty of room for the new channels. Both Murdoch and BSB would be able to survive, not one or the other," he says.

But this new competition will not necessarily mean that absolute TV advertising costs come down. There will not be more customers watching TV, instead the gross audience will continue to decline and be spread more thinly over more channels. In 1985 Britons watched an average of 4.16 hours of TV per day. This has dropped steadily to the 3.98 hours recorded at the start of 1988.

Thus the cost per spot per channel will be pushed down by the stronger negotiating hand of the agencies. But, as audiences fragment, commercials will reach fewer people and advertisers will have to spend more to maintain audience levels. Agencies, too, will have to spend more on manpower, research and phone calls and this cost will be passed on to advertisers.

But this increased fragmentation will make "narrowcasting" (reaching discrete target audiences) cheaper for some advertisers. "We will see a move to more magazine-type buying and there will be less wastage as advertisers go after specialised audiences like young people and businessmen," says Nick Henley, international media manager at multinational agency McCann-Erickson.

Henley also believes that in the UK and Europe advertisers will increase their TV spending in other ways, such as sponsorship, and by the production and supply to TV stations of programmes bearing product credits.

It is delivering targeted audiences across Europe that is the last real hope for the so-far unprofitable Pan-European TV channels, according to Zed Zawada, the sales director of Europe-wide pop video channel MTV who recently resigned. Both the Pan-European Sky Channel and Super Channel have failed to return profits on annual revenues of around £13m and £7m respectively, and have fruitlessly undercut each other's rates in a price war.

Zawada believes Murdoch's virtual overnight decision to switch Sky from the Pan-European model to a national one, concentrating on the UK, is proof that "the concept of a Pan-European general entertainment channel is doomed to fail." He says: "Advertisers will only support a true Pan-European channel when it provides an identifiable market place of people who want to buy specific types of products so that national boundaries are irrelevant." He says streamer channels covering pop, news, business and sport are the only ones with a slightest Pan-European chance.

Back in the UK, it is clear that advertisers are rooting for the DBS options and are hoping they will help bring the ITV companies to heel. Murdoch, Maxwell and BSB could benefit from early advertising

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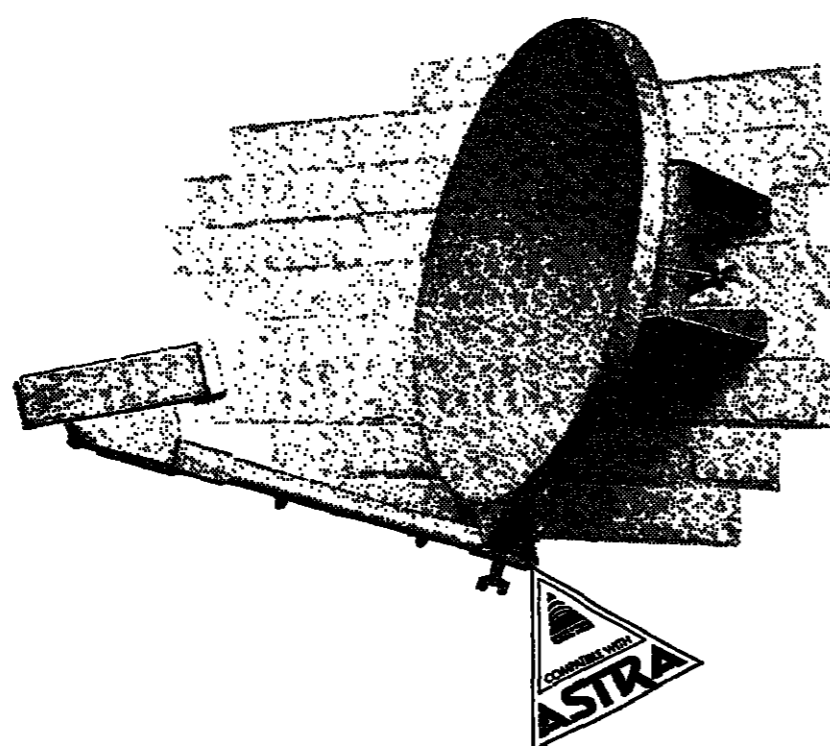
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## SATELLITE BROADCASTING 5

British audiences are unlikely to want more of the same

## Schedules and information need much improvement

SATELLITE television will stand or fall — by or plummet — on the quality of its programming.

That is no mere truism. Indeed, it may be that the British experience will prove quite different from anything so far seen in the rest of the world.

In the US the take-up rates for new transmission technologies, cable and cassette as well as satellite, have been governed to a large extent by the poor quality of signal received by so many viewers from conventional terrestrial systems.

To take an extreme example: people living in the Rockies

have been willing to pay thousands of dollars for big domestic satellite dishes simply in order to receive a recognisable picture from the standard ABC, NBC and CBS network services.

Furthermore, American operators of the new technologies seem to have benefited from irritation among viewers about the intrusive frequency and length of commercials in the US. People have been willing to pay for new services partly because they provided fewer interruptions from advertisements.

In Europe the chief attrac-

tion of the new technologies has been quite different. Throughout most of the history of television many viewers on the Continent have been starved of light entertainment.

In France, Italy, Germany, Spain, and elsewhere public service broadcasters have been the dominant and, in some cases, the sole programme providers.

An audience fed largely on a diet of news, current affairs, serious drama, religion, opera and so on is a relatively easy target for a service such as Sky with its American action series, sport, and light entertainment.

None of these reasons for taking satellite services exists in Britain. For many years the overwhelming majority of British viewers have been able to receive a high quality terrestrial signal (with the PAL system, incidentally, delivering better colour and a better picture generally than America's NTSC).

Any British viewer impatient with commercials can watch the BBC channels which are free of them.

And while the British may not have had as much light entertainment as the Ameri-

cans, they have certainly not been starved of it. BBC1 and ITV have long provided a plethora of game shows, soap operas, sitcoms and light drama.

The way in which videocassette recorders are used in the UK and the US also offers a clue to possible differences in reactions to satellite services.

Whereas Americans bought VCRs primarily to play rented cassettes, in other words, as a way of watching less network

assertion that satellite services in Britain will depend for their success on the quality of the programmes.

Operators of DBS channels will have to persuade viewers, who are already saying that there is more television than one person can watch, that they should spend a considerable chunk of disposable income on increasing the quantity of television entering their homes.

As with items such as per-

There will be AB trend-setters who will buy satellite dishes regardless of the programmes

television, the British — who reached a 50 per cent home penetration faster than any other population — have used their machines largely for time-shifting (recording one programme for viewing later, while watching another); in other words, for watching more network television.

What all this suggests is that the British are remarkably pleased with their existing television services, and that is, indeed, what surveys on the subject conclude. Hence the

sonal computers and CD players, there will doubtless be AB trend-setters who will buy satellite dishes regardless of the programmes offered, simply to be in the vanguard with a new toy. Towards the other end of the social scale there will no doubt also be a number of early buyers who will see Mr Sugar's dish as a more important status symbol than a new car number plate.

But it seems likely that — as cable operators have discovered in Britain — the mass of

the public will want to know exactly what programmes they can expect from the new service before they will even consider forking out £199. And the schedules will surely have to improve dramatically compared to what is currently on offer before most people will risk that new outlay.

Take an evening at random earlier this month: Thursday, July 7. Being near the start of the summer, it was not one of the most impressive evenings for terrestrial television; there were numerous repeats. Here is BBC's evening schedule:

7.00 Top Of The Pops  
7.30 EastEnders  
8.00 Brainstorm (Kenney Everett's science quiz)  
8.30 Bread (sitcom repeat)  
9.00 Nine O'Clock News  
9.30 Mercer Play season: Let's Murder Vivaldi (1968)  
10.35 Esther Interviews (Esther Rantzen and Mary Tyler Moore)  
1.05 Speaking To Each Other (celebration of BBC regional broadcasting)  
Against that, Rupert Murdoch's Sky Channel was offering this:  
6.30 The Incredible Hulk  
7.30 Canon Fashion TV (fashion news and reports)

8.00 Wrestling  
8.55 Headline News  
9.00 Monroe Indy/C.A.R.T. World Series 88  
9.58 Headline News  
10.00 The Great Video Race  
11.00 Masters Of Rock

TV programmes that night included the game show *Lingo*, *This Week*, and a repeat of the police series *The Bill*. Channel 4 offered the second episode of the European co-production drama *Fathers And Sons* and a 60-minute interview with Viv Richards. On the Super Channel satellite service meanwhile you could have:

7.00 Baseball  
8.00 Basketball  
9.00 News  
9.35 Golf

10.40 Gaelic Football  
11.40 Music Box (rock and pop)

It is difficult to believe that a great many British viewers would be willing to spend much money to gain access to satellite schedules of that sort, given the programmes already available in their homes.

Some, presumably, would pay the price for a service which included a news channel (promised in the Murdoch package) and in particular a film channel (this has been promised by several potential satellite operators, including Mr Murdoch).

Even here, however, it is instructive to look carefully at what is being provided already. On Thursday, July 7 Channel 4 offered the 1946 Ealing film *Hue And Cry* at 5.00, BBC2 screened Abbott & Costello in *Here Come The Co-Eds* at 6.00, and Channel 4 showed *The Bends Of One Rosary* (Polish, 1960) at 12.30.

On the same day the existing satellite film channel Premiere provided this schedule:

6.15 Phase IV  
7.35 Crime Story (presumably the "special" launching a new American TV series)  
9.15 Melanie  
11.05 *Spawns Of The Slithis*  
12.30 *Up From The Depths*

And the list for Filmmet, the other existing satellite film channel, over the same period of the evening was:

6.00 *Fire With Fire*  
8.00 *The Amateur* (1982)  
10.00 *Age Of Consent* (1969)  
12.00 *Runaway Train* (1985)

In many cases, it is impossible to discover very much about these "films" since even *Satellite TV Europe*, the monthly listings magazine which publishes satellite schedules, prints merely the title and certificate and no other information.

Quite a number appear to have been produced specially for the satellite/cable/cassette market, and are not (yet) listed in any standard film encyclopedia.

But even without any background information, it seems likely that a radical improvement to such schedules would be needed before any significant proportion of British viewers would consider spending three times the licence fee to acquire four — or even 10 — more channels.

Programme quality will be crucial.

Christopher Dunkley

## DATA

## Swift means of delivery

HIDDEN FROM the glare of publicity surrounding the imminent arrival of a multitude of satellite TV stations is the potential for using the unused parts of the TV bandwidth as a mass distributor for data.

Until recently, such a sensible use of spare transmission capacity was illegal in the UK, except for teletext services. In 1984 there was a change in regulations which permitted the BBC and IBA to run encoded data over their terrestrial TV networks, thus providing a vehicle for subscription data services.

The BBC provides its own Datacast service but the IBA decided to license a third party to do it for them and chose a joint venture company set up with telecom value added provider and cellular retailer, Air Call, as majority partner with Channel 4.

Data broadcasting services solve a data delivery problem

Successful vendors of new services have had to learn the skills of marketing

not easily provided by telephone company circuits which are point to point in nature, rather than the point to multi-point nature of broadcasting. Reuters and the International Stock Exchange were quick to grab a slice of Air Call's and the BBC Datacast's bandwidth respectively, followed by betting shop chains, *Ladbrokes* and *Conor Racing*. More recently, the Halifax Building Society is to distribute information and advertising in the form of high resolution NAPLES graphics to customers in its retail outlets.

The advantages offered to information publishers in using data broadcast services rather than telephone lines are that where the same information is to be sent to a large number of recipients, data broadcasting is not only much cheaper, but the information arrives virtually instantaneously and simultaneously to receivers in all parts of the country and, for satellites, all parts of Europe.

Additionally subscribers to these services need not do anything difficult like log on to some remote database to receive the information, but can happily wait until their terminal is given, instantly if required, that vital bit of information they are waiting for. All users need is a suitable aerial, regular TV or dish and suitable decoder feeding a PC or alternative processor, storage or display device. New users can be hooked up very quickly. The information supplied is normally addressed and scrambled. This allows a message to be received by one person only, or any number.

Recently the Department of Trade and Industry has announced that it will license six special satellite services operators and expects to announce the lucky ones late this year. Many, no doubt, will apply for whole transponders for video-conferencing and others will request access to the unused parts of the TV transponders. The best deals will largely be determined by two factors: the price the licensee can negotiate for satellite capacity, and the price of the user's receiving stations, which is determined by the transmit power in the satellite and the purpose for which it is used.

In large network data broadcasting systems the largest cost element will be the user's receiving station, and in this regard the dishes and decoders distributed for DBS must have the cost edge and will be very suitable for services requiring up to 8.6 kilobits per second. Of course these decoders will also receive full field data, that is full TV bandwidth, which capacity, network or transponder owners may well wish to sell to data broadcasters when entertainment TV is off the air.

What is this hitherto unused capacity worth to the broadcaster? This is going to be a highly competitive field, with six licensed satellite operators linking up from the UK, plus BT and Mercury, plus operators outside the UK from France, Germany, Italy and

Ireland, together with the existing two terrestrial services.

At present Air Call, which is cheaper than Datacast, sells a 1200bps terrestrial bandwidth for about £180,000 a year, whereas BT's narrow satellite bandwidth at about £30,000 for 64Kbps. How on earth does Air Call sell this capacity at such a good price? The answer is that first, receiving decoders for the Air Call service from suppliers like IGG and Bishopsgate cost about £250 to £350 and aerials cost some £150 installed. Receiving stations for BT's satellite services can cost 10 times this. Second, BT appears not to have been marketing the service aggressively and has been hidebound by legislative barriers.

The satellite scene will now change rapidly. The terrestrial players have been limited by available capacity — only about 4x14Kbps bandwidths have been released to date. With high power DBS there will be low cost receivers and dishes backed by players with big bandwidths and money with which to exploit it.

The satellite DBS programme operators have to decide how much capacity they will release for non-entertainment purposes. News International has opted for PAL which only allows about 154Kbps per channel, whereas BS2, using D-MAC, gets 1 Megabit per second per channel.

Then there are the existing low power satellite operators which, presumably, will be looking for customers as the TV operators move away to the higher powered transponders. From being limited by broadcast capacity, data service operators could soon be spoilt for choice, assuming the satellites are successfully launched and the first, *Fastnet*, which some see as suitable for data, has just been successfully put into orbit. This scenario must reduce the price the terrestrial people have obtained hitherto but the high power DBS transponder operators should be able to command a higher price than BT's £30,000 a year for 64Kbps.

Data broadcasting operators must put the technical aspects of bandwidth in their proper place, certainly in relation to the key issue of marketing. Gone are the days when customers queued up for telephone and telex as the only means of rapid communication. The choice factor has forced all successful vendors of

Home shopping must be one area that has great potential in the domestic market

new telecom services to learn the skills of marketing.

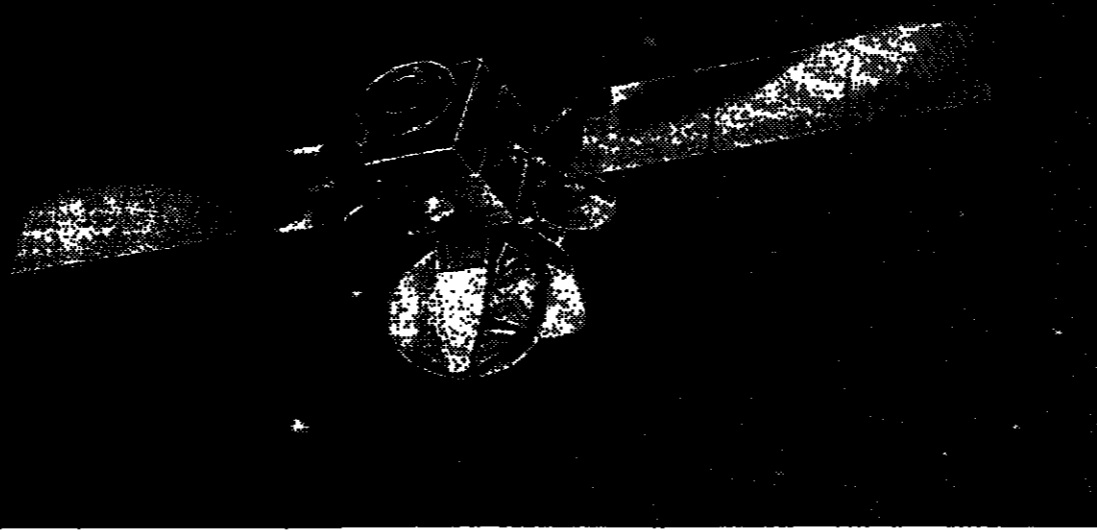
The present operators in the field have found that customers need solutions and network management rather than bandwidth. The packaged solutions from Bishopsgate and IGG include special terminals and the very important special software, as well as the bandwidth in a one-stop shopping service, be it in financial, retail or educational sectors, though not yet domestic.

A big unanswered question hangs over the domestic market, remembering, of course, that DBS is designed for the home. Will News International, for example, extend the printing of newspapers to the Amstrad home printer attached to an Amstrad PC and Amstrad PAL receiver? Teletext, after all, is a newspaper of the air. Certainly, business, or even sports news could be distributed in this way.

Home shopping must be one area with the greatest domestic potential. Chris Curry's Key-line home shopping terminal, to be given away to two million homes by 1992, will not replace the Key's beautifully prepared home shopping catalogue. Colour still frames, individually delivered via satellite to domestic receivers, is an alternative — Tandata has already demonstrated the technology in Scandinavia. If the 2 million households had rewritable CD disk players, Key's would really have an alternative to the catalogue.

Chris Weeks

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## SATELLITE BROADCASTING 6

Lessons can be drawn from the US experience

## Fragmentation as viewing levels fail to rise

IN 1988 the average American will watch about three and a half hours of television daily, much the same as his British counterpart. His viewing will rise as in Britain, to a peak of four hours daily in the winter and fall away to three in the summer. This indicates that the arrival of satellite television, and the explosion in the number of channels and programmes available, is unlikely to lead to big increases in viewing levels in Britain.

But there the similarity ends. British homes now have a choice of four channels: American homes get, on average, 21 channels, and one in three get 30 or more. Hence in the US the market is totally fragmented by channels and viewing patterns. Half of all American homes subscribe to cable, and two out of three of those also pay extra to receive a film channel devoid of advertising.

This makes the advertisers' buying of TV airtime much more difficult than in Britain: there are many more opportunities to buy television airtime, but selecting the right package of channels and programmes to reach target audiences effectively and economically demands a very different approach to that practised in the current quasi-monopolistic British market.

Negotiation becomes cut-throat; audience delivery guarantees are demanded and obtained; and buying is programme-based rather than time-based: if peak time is divided between 20-plus channels, then buyers must estimate what a previewed programme will deliver across time, not what a given time slot will provide. Hence television negotiators need to become experts at predicting programme audiences; to be equally expert at evaluating TV programming, at negotiation and at using TV audience numbers.

This constant competitive search for fragmented audiences, and the total financial dependence in the US of television on advertising revenues and private household subscriptions, has led to television being accepted largely as entertainment - and to airtime

being bought and sold as a commodity.

The three main networks, which still hold a two-thirds share of peak-time viewing across all American households, offer in peak-time an almost continuous diet of game shows, sitcoms, TV drama, adventure and movies.

Competition in Europe has produced a similar trend; a recent study showed that the peak-time entertainment content of state broadcasters across Europe has increased from 46 per cent in 1985 to 56 per cent in 1987: a rise of well over 20 per cent. This is largely a result of increased competition from new private channels, which offer peak programming 80 per cent dedicated to entertainment.

**The search for audiences has led to television being accepted as entertainment and to airtime being bought and sold as a commodity**

As competition for audiences increases (the same levels of viewing as now in Britain, competed for by more and more channels), so will the proportion of entertainment increase as opposed to news, current affairs and minority "serious" programming. This does not necessarily mean a reduction in the hours of TV programming devoted to these subjects; just an increase in the total hours devoted to entertainment.

The reason for this comes down to economics. In 1982 television advertising revenues in the US were \$14bn, of which 45 per cent went to the three networks; by 1987 their share of total TV advertising revenues had dropped to 35 per cent and it is forecast to drop yet further in the next few years.

The main beneficiaries of this will be the cable channels and the syndicators, independent producers who provide programmes to the local stations with the advertising fully or partly pre-sold. But cable did not begin to take a significant share of American television advertising revenue until 1986 when penetration came close to the magic 50 per cent level.

In Britain DBS penetration and audience share will similarly be the critical factors that govern the advertising revenues of the new channels. In the US, the share of audiences in all cable homes of all cable channels is about 33 per cent, led by the film and general entertainment channels; in Britain in cable homes the share of cable has consistently been at about the same level, again led by film channels like Premiere and entertainment channels like Sky and Super Channel.

In America it has taken 20 years for penetration to rise from under 10 per cent of homes passed by cable to the current level of 66 per cent. In Britain, in the new-build broad-band cable towns, sub-

scription levels now run at close to 20 per cent of homes passed after just three or four years. This provides a base for some optimism for the take-up of DBS.

The best estimate for DBS is that - subject to dishes and decoders being priced at under £250, to effective marketing and promotion, and to good quality entertainment programming - it will reach 600,000 homes by the end of Year One, 2.6m by the end of Year Three and close to 5m (24 per cent of the total) by the end of Year Five. This could, at today's prices, give it advertising revenues of some £150m by 1995, a 7.5 per cent share of a television advertising market worth by then £2bn at constant prices. But this is dependent on many variables, and the reality could be very different.

What then are the implications from the US for the changing British scene? The first is that total viewing levels will rise very little, if at all; hence, more channels and programmes will divide up the total audience cake. With this increased audience fragmentation, time-buying practices will change and become based more on the programmes and

less on the time of day. There will be a move towards the buying of programme packages with guaranteed audience delivery.

At the same time programming will become more entertainment-led: and American practices like syndication and programme bartering will emerge, with more advertiser influence being exercised on programming than at present. The new DBS channels will erode the existing BBC and ITV audience, probably reaching a 30 per cent share in DBS homes.

This erosion will be particularly marked in young family homes. They will be the first to buy dishes and will be most prone to viewing the entertainment-led programming coming from the new satellite channels. As the under 35s already watch far less television than the over 35s, and as it is this group which will first take DBS, the battles will be waged between channels, programmes and advertisers to reach the younger, more affluent "kids and adults" families of Britain.

Across Europe the same pattern will emerge. In some countries, like Belgium and Holland, the distribution of the new satellite channels may be mainly through cable, as cable penetration is already high. In others, where cable penetration is low or non-existent, direct broadcasting to the home via small dishes may become the norm. And in others the two distribution systems will exist side by side, each complementing the other.

In the US, close to 80 per cent of homes are passed by cable, but the remaining 20 per cent - close to 20m - could prove fertile ground for DBS.

The important changes over the next decade will not, however, be how television is distributed but what programming the channels provide, how the channels are financed and how the European public responds to more choice, more entertainment, more television advertising and more subscription television. It will be an exciting decade.

John Clemens

## SCANDINAVIA

## Unexpected consequences

IN AN Aerospatiale laboratory in Cannes, France, sits a fully-paid for satellite which nobody wants. It is Tele-X - representing some £170m contributed by the taxpayers of Sweden, Norway and Finland.

Originally conceived as an industrial development project by the three governments, Sweden put up 52 per cent of the cost, with Norway and Finland contributing 15 per cent and 3 per cent respectively. The main contractor is Aerospatiale of France, but Saab and Ericsson of Sweden, Elektrisk Byrå and Kongsberg of Norway, and the Finnish firms of Nokia and Valmet, hold sub-contracts.

The Tele-X satellite is virtually identical in design to the unfortunate TV-Sat bird, the recalcitrant solar wings of which put an end to West-German direct broadcasting hopes.

Intended for Sweden's WRAC orbital slot of 5 degrees east by an Ariane launch, it carries three full-power DBS television transponders, plus transponders for data communications.

The three television transponders were offered to the state broadcasting organisations of the three Nordic countries, but these - already starved of cash, and being offered no additional funds to supply the programmes, eventually declined the offer. A search for other acceptable users of the television channels has so far yielded no takers.

Efforts to find customers for

Tele-X's data-carrying capacity have been almost equally unsuccessful. The telecommunications administrations of Sweden, Norway and Finland have invested heavily in terrestrial fibre-optic communication systems and so were uninterested in satellite capacity. The only potential customer for data traffic on Tele-X is the Swedish Kinnevik conglomerate, which nurtures ambitious plans for an international tele-

Channel - has already made a significant impact on the Nordic broadcasting scene, although hardly the one intended by its progenitors. The programming fare supplied by the state broadcasters of the Nordic countries has traditionally been low on entertainment, majoring on information and current affairs. The satellite channels delivered the longed-for entertainment, especially pop music, and reached a

Kinnevik group - has had a significant impact on the situation.

TV-3 quickly acquired instant programming, such as exclusive Disney films, rights to tennis tournaments featuring Sweden's leading players. At the start of TV-3 there were, however, some spectacularly unsuccessful attempts by the Swedish authorities and state television to frustrate the activities of the new service. All this has resulted in a political consensus in favour of creating an advertising-financed competitor to existing state television networks.

Only the elections in Sweden, set for mid-September, have put things on hold. Most observers agree that terrestrial commercial television is bound to come, regardless of the political hue of the next government.

Finland, finally, already has two terrestrial advertising-financed networks, a license fee-supported state television network, and a developing pay-television service through cable - a lot of television for an under-populated country. The strains, especially in terms of the elasticity of advertising demand, have begun to show.

The prospects for satellite television in Scandinavia, especially via direct broadcasting to homes, is not very rosy. The multiple housing prevalent in urban areas is not suitable for individual dishes.

Cable - especially of the fibre-optic variety - is well advanced. The cable operators are obviously interested in being able to carry as many international satellite signals as possible; the capacity of the fibre-optic networks is immense. But Nordic audiences prefer programmes in their own languages to foreign language broadcasts.

The outlook for English-language programme operators hoping to tap the well-heeled Nordic consumer markets via Astra is unpromising: English is unlikely to become the lingua franca of Northern Europe. This reality, however, does not seem to be deterring the media tycoons.

Gunnar Rugheimer

**It seems there is very little salvage value, since most of the money, including the cost of the launch, has already been paid. The prospect is that Tele-X will be up there, silent and unwanted**

communications project.

The gigantic (4,000lbs) Tele-X is due to be launched from Kourou, French Guiana, in February or March next year. The three Nordic governments must now be considering whether, in the circumstances, Tele-X should be launched at all. But it seems there is very little salvage value since most of the money, including the cost of the launch, has already been paid. The prospect is that Tele-X will be up there, silent and unwanted.

However, if Scandinavian DBS looks like being moribund, even before launch, satellite television - in the shape of Sky Channel and Super-

significant number of television homes through rapidly developing cable networks. They made a considerable impact.

These satellite services also provided the first opportunity to reach Swedish, Danish and Norwegian audiences with television advertising.

It did not take long for Sky and Super Channel to be seen as a threat to national interests in Nordic political and business circles. This sense of threat has been strong enough to overcome the deep-rooted and widely-held aversion to advertising on television.

The result is that in Denmark a second television network, financed through the sale of advertising, goes on the air this autumn. In Norway parliament is currently in the process of passing legislation which will introduce advertising on the existing state television network.

Sky Channel and Super Channel, having served as catalysts, will now get powerful terrestrial competitors broadcasting in the national idioms instead of in Pan-European "English". The outcome of the battle is not difficult to forecast.

Only Sweden has, so far, resisted bringing in terrestrial television advertising. But the successful launch of TV-3 - a cable-distributed satellite service owned by the Swedish

## FRANCE

## Ambitions for the language

THE FRENCH broadcasting industry has been undergoing a major revolution during the last few years. Deregulation and privatisation has seen the arrival in France of the Canal Plus pay-television network; two new private national channels; and the sell-off to a consortium headed by Mr Francis Bouygues, the French construction magnate, of the country's leading national television network, TF1.

France today has six national channels, ambitions to dominate the standards and future developments of the new generation of high definition television.

The stakes are particularly high for France where the state-controlled Thomson electronics group has recently invested heavily to increase its critical share in the television market by acquiring in the US the RCA electronics brown goods division of General Electric.

But despite France's ambitions in satellite broadcasting, the issue has been the source of a long and heated debate in the country. Indeed, the new Socialist minority government of Mr Michel Rocard must decide soon on the future of France's controversial direct broadcasting satellite programme which was launched with a great fanfare and at great cost by former President Valéry Giscard d'Estaing back in 1979.

From the beginning, the programme was regarded as a further step to reinforce Franco-German co-operation. The direct broadcasting satellite plan involved joint collaboration with West Germany, with the two countries developing their respective satellites.

The controversy in France centred on the opposition of the country's telecommunications authority which regarded the French TF1 direct broadcasting satellite as a mistaken technological choice. The telecommunications lobby argued that the technology used in the TF1 satellite was already being overtaken by new technologies using smaller satel-

lites, combining television broadcasting with telecommunications services.

But the heavy investments poured into the programme by the French government made the authorities reluctant to abandon the TDF1 programme. However, the government has sought to find a compromise with the private sector to finance the programme. The previous right-wing government of Mr Jacques Chirac had, for example, agreed last year to fund the bill of FF22m (£190m) for the TDF1 satellite on condition that its planned sister satellite TDF2 was financed by the private sector.

The French direct broadcasting satellite programme received another blow this year when its German cousin TV-SAT was bedevilled by technical problems after being launched into orbit. The problems of the German satellite provoked new doubts in France on the viability of the TDF1 programme.

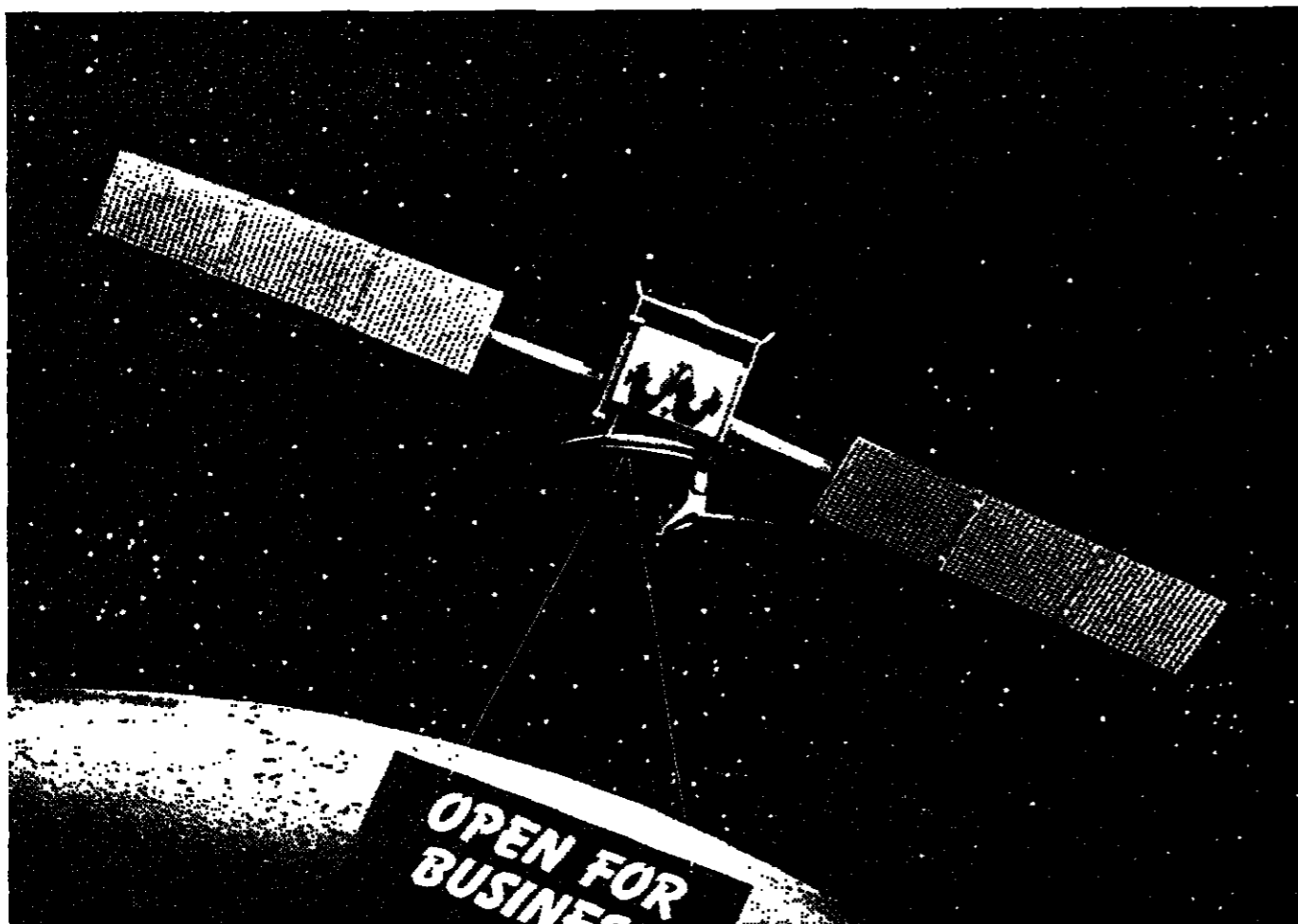
However, TDF1 is still scheduled to be launched into orbit by the European Ariane rocket in October. The satellite will have four visual channels with 16 sound channels, allowing each television channel to broadcast in four different languages across the whole of Europe. One channel has been allotted to la Sept, the new French cultural television chain.

The French government, which has actively supported the creation of la Sept during the last two years, regards the new cultural channel as a European venture and not just a French service. Mr Georges Duby, the chairman of la Sept, recently emphasised the pan-European character of the channel which plans to air a wide variety of cultural and educational programmes at the beginning of next year - that is if there are no more problems with the TDF1 satellite timetable.

The new cultural channel has already negotiated a large number of joint productions with major European television networks, including the recent signing of a five year co-production agreement with Channel 4 in the UK. The la Sept project was originally set up two years ago with a capital of FF60m. Its shareholders include the French state regional network FR3, the French government and a number of other state broadcasting bodies. As well as broadcasting films, theatre, opera, and documentaries, the new channel is planning to adapt the British Open University concept on a European scale.

Apart from the big industrial stakes of satellite broadcasting for France, the government is also under pressure to take a swift decision on the future of the French direct broadcasting satellite programme because of the rising competition of rival Luxembourg and other international broadcasting satellite projects. This pressure and competition is likely to increase sharply in coming months as a result of the fast, if at times confusing, evolution and internationalisation of the French television broadcasting sector.

Paul Betts



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## SECTION III

FINANCIAL TIMES  
SURVEY

**The Isle of Man  
economy is booming.  
Unemployment is  
under 4 per cent.**

**There is a rash of  
new office building for a growing  
financial sector. The island has  
also just passed an important test  
of its regulation of this industry. Ian  
Hamilton Fazey reports.**

## A boost in stature

THE ISLE of Man has been put to a severe test in the last 12 months, but passed it with no small degree of satisfaction. Mr Peter Clowes, founder of the defunct Barlow Clowes investment group, twice tried to use nominees to buy banks on the island, but failed.

The island's supervisory machinery — through which the growth and operation of the rapidly developing financial sector is being controlled — worked.

Confidentiality surrounds all applications for banking licences, but this is a case where the island's government has not minded the leak. It is good news for the blue-chip bankers from around the world it wants on the island.

Not only has it demonstrated resolve but it speaks volumes for the financial supervisors' intelligence network, for they were wary enough to say no at a time when the Department of Trade and Industry in the UK was about to re-litigate Mr Clowes' operations on the mainland.

There is now a very obvious *schadenfreude* on the island at the discomfort of the DTI in Britain and of the authorities in Gibraltar — where Mr Clowes had substantial off-shore operations.

The Manx companies regis-

try has been combed and the only strong connection found has been his involvement in Corporate Aviation, a company which markets executive jets and helicopters. Mr Clowes was a co-director with Mr Peter Henwood and Mr Andrew Sebastian, his known associates on the island.

Mr Henwood and Mr Sebastian have since been trying to distance themselves from Mr Clowes. However, he also tried to buy their own main, privately-owned business, the International Trust Corporation of Ramsey.

Negotiations were close to completion when the Stock Market crash of last October wiped out the value of shares in the publicly-quoted James Ferguson Holdings, the Barlow Clowes parent, with which Mr Clowes intended to pay.

Mr Clowes could have done what he liked with the corporation had he managed to buy it, so this near squeak has raised questions about the regulation of private trusts and, indeed, other Manx-registered companies.

Tighter control of the companies register was already on its way — announced by the island's attorney-general last year — but is stalled by an argument about whether



Douglas harbour, Isle of Man

# Isle of Man

In 1982, the loose ends of the collapse are being tidied up now, with the trial of some of the principals involved on charges connected with the running of the bank and a forthcoming civil action by some depositors against the government, alleging negligence in supervision.

Things are very different now. Mr Miles Walker, chief minister of Tynwald, the island's ancient parliament, says: "As far as we can we are preventive and we are certainly telling people that there is a lump of business about that we don't have to take and don't want."

"We are trying very hard to raise our image. The response to that worldwide has been very good. People are recognising the Isle of Man now as a centre of some stature and importance in financial services and not as some grotty little place in the Irish Sea."

How far the message has got home became very clear on Tynwald Day, when the

island's new laws are proclaimed each year in an age-old ceremony. Mr John Abbott, treasury attaché at the US Embassy in London, attended and was entertained afterwards at a lunch hosted by Mr David Cannan, the island's finance minister to mark what was coincidentally American Independence Day.

Mr Abbott said that financial crime and the laundering of drug money was a continuing worry to the US government. He added: "It is heartening to come here and learn what steps have been taken. Actions and words are increasingly convincing, and firms are voting with their feet to come and do business here."

The influx has led to a developing economic boom that has intensified considerably in the last year. Unemployment is now below 4 per cent. For the first time ever, substantial numbers of ordinary financial sector workers on the overcrowded islands of Jersey and Guernsey are applying for jobs

on the Isle of Man, for so long the Cinderella of European off-shore centres.

Mr David Lever, who went to the island 17 years ago to open a branch of Singer and Friedlander, the London merchant bank, says: "We are the only low tax area in this time zone with the room to develop and the ability to keep costs relatively low."

The speed of change has surprised most of us and caused some problems, particularly in staffing, house prices and office space. Rents are rising. Head hunting is just beginning. Young people from the Channel Islands are coming here because they cannot afford to buy property there."

Mr Cannan says: "Quality attracts quality and more and more people are coming here. People know that we have strong regulatory machinery and that we are not interested in the grubby end of the market."

Despite near full employment, however, there are

strains. Tynwald Day had a blacker side, for the letters "FSFO" were burned with weedkiller into the grass at the open-air site where the ceremony takes place. The letters had to be painted green to hide the damage, but the point had been made.

"FSFO" stands for "Financial Sector F. Off" and there has been a spate of dabblings in some parts of the island. An extreme minority of Manx traditionalists are believed responsible.

The protest is about the ending of the island's formerly sleepy, little-regulated way of life, about an influx of highly-paid executives in the financial industry, about a dangerous, developing gap between haves and have-nots, despite full employment.

It is also about a hike in house prices because of shortage, which makes it impossible for local, lower-paid first-time buyers to get on the property ladder.

These are the problems of sudden, spurring growth. The social infrastructure of everyday life takes time to catch up with rapid change and so tension and conflict become almost inevitable.

This showed tellingly in a widespread strike over the issue of local employment

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terms earlier this year which cut off the island for a short time. The causes had been building in several minor disputes in many places, but it highlighted the fact that the island had no industrial relations legislation, no employment protection laws, and no structure of rights and responsibilities that either side of industry could fall back on.

They were not needed when goodwill and a small, friendly community were enough, but they are needed now. Urgent steps have been taken this summer to draft appropriate laws. At the same time, the government has spelled out its social philosophy in a seminal document entitled "The Development of Prosperous and Caring Society."

The government has not over-reacted to the FSFO protest. It has kept emphasising to the vast majority that without the financial sector, economic growth would be too slow to pay for the falling levels of already low taxes delivered in the last two budgets.

Mr Walker says: "We are not going to twiddle our thumbs. We know we have to develop the economy in such a way as to produce a greater income per head for ordinary people."

Mr Cannan says that housing will be a priority but that social policy can only be implemented through a strong economy and an active private sector chasing good market opportunities.

"What we have here is not a boom. This is established, well-founded growth. We are going to manage it to make it the norm. It may level out, but it is not going to fall back."

We have been getting people back to work and paid proper wages. We have almost full employment and have been getting the economy into surplus and balance. It is not a boom, but how things should be and are going to remain," he says.



PALACE GROUP

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The business entertaining market world-wide is served by the Group's own Palace Promotions company that is devoted to tailor-made events linked to celebrity occasions.

The Group's resources on the Isle of Man extend from the luxurious accommodation and international atmosphere of The Palace Hotel and its famous Casino to the superb sporting facilities offered at The Castletown Golf Links Hotel — a venue that has always been attractive to the visitor with business in mind. Castletown is only minutes from Ronaldsway airport and in addition to its world-famous golf links has recently augmented its lavish conference facilities and first-class restaurant with the addition of extra leisure facilities, including sauna, steam room and solarium.

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### RAISING NEW STANDARDS FOR PLEASURE

More of the tourists' pounds find their way into the island's economy through Palace Group enterprises, too.

Not content with boasting "Britain's best disco", the Palace Lido boosts the island's economy by operating one of the busiest venues for holidaymakers on the island's busiest thoroughfare.

Visitors with more sophisticated tastes also find they have a wider choice now that the Group's new nightclub, "Toffs", has opened and stolen the limelight, with new standards for late, late entertaining.



### RAISING NEW STANDARDS FOR ISLAND LIFE

Opportunities for employment apart, the Palace Group and its operations makes a major contribution to the special quality of the Manx lifestyle — a quality that continues to attract new residents to the island — many of whom bring important fresh commercial contacts with them. Superb restaurants and exclusive clubs are the traditional hallmarks of the Palace Group's abilities to entertain, but there has also been strong growth in the health and fitness sector — an up-market area that the Palace Group is expanding with its developing health club at the Palace Hotel complex. Raising horizons, raising hopes, raising potential... by raising its new standards higher the Palace Group is proclaiming its commitment and belief in the future of the island and the Manx people.

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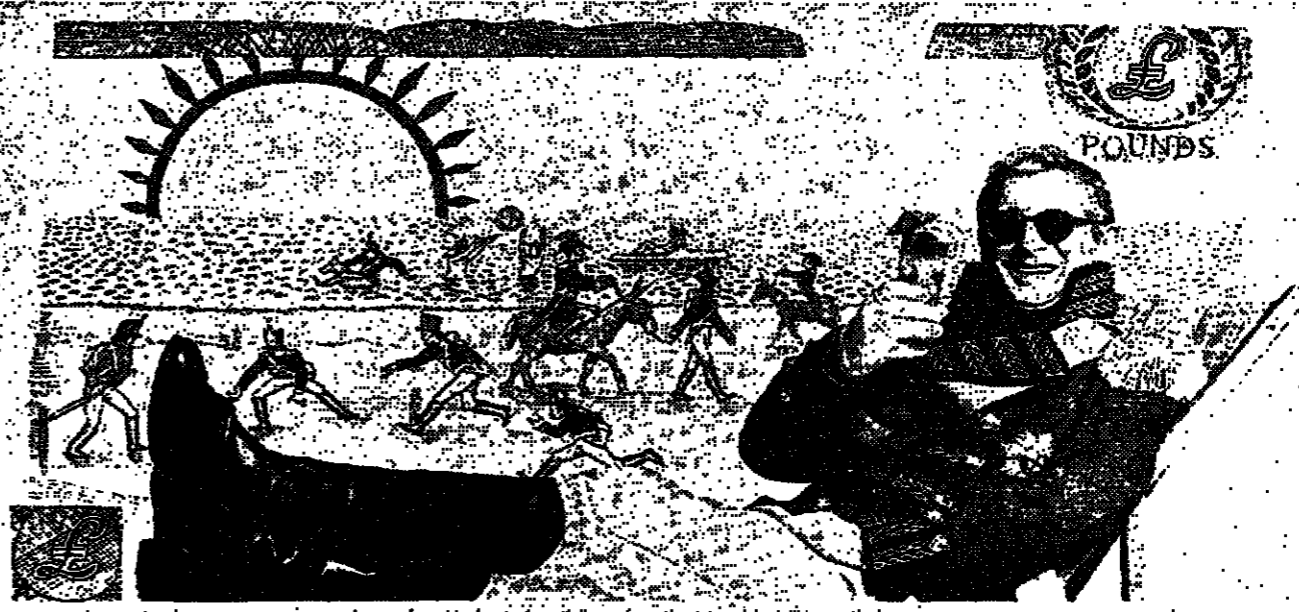
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ISLE OF MAN 2

ACCOUNTANCY

# Sea change in attitudes

IN THE leafy residential enclave of Belmont Hill on the outskirts of Douglas is an elegant Victorian house too big for sale today as a family home. It houses a new venture by Pannell Kerr Foster (PKF) which is one of the most significant developments in the Isle of Man's professional services since the early 1980s.

It was then that Peat Marwick, the accountancy firm, set up a full office with six staff. Touche Ross, Coopers and Lybrand, and Ernst and Whinney were to follow. They shook up a sleepy professional infrastructure long dominated by PKF by introducing competition into a market that was then in the doldrums.

A combination of economic recovery, the growth of the financial sector, and the current boom has given everyone big slices of a growing cake in the last three years, but what is happening on Belmont Hill encapsulates a sea change in markets and attitudes towards professional services on the island.

It also shows how PKF has managed to adjust to competition and keep its local market leadership in terms of size and range of services. The house is now called the Eaglehurst Business Centre. PKF has moved several specialised services into it and created others, setting them all up as incorporated profit centres in their own right.

This has eased pressure on space in the firm's headquarters building in Athol Street, where the core accountancy services remain, but the move is about much more than that. It confirms the shift from general practice to increasing specialisation and segmentation of professional services on the Isle of Man. This in turn underlines the growing diversity - and, indeed, the very growth - of the island's financial industry.

Eaglehurst houses PKF's offshore businesses. These cover company administration - it is the registered office of 450 companies - captive insurance company management and shipping management. It is also the base for the firm's business services, which include start-up and management consultancy, as well as computer selection advice.

Another subsidiary runs seminars at the centre and var-



Mr Peter Pell-Hiley: "benefited from a flight to quality"

ious rooms can be hired by others for seminars, presentations or board meetings.

Mr Ian Radford, one of the partners in charge, says: "The idea is to provide services not traditionally available from practising chartered accountants, and to extend our traditional practice into various types of consultancy."

In other words, the multi-practice firm is now evident on the Isle of Man. However, PKF - the forerunner of which came to the island to liquidate the collapsed Dumbell Bank more than 30 years ago - had to act decisively, or it might well have been embarrassed by some of its newer arrivals, most probably Peats.

Mr Peter Pell-Hiley, who heads Peats operations, arrived in Douglas as a 30-year-old six years ago to build up the practice. There was already an office there - an adjunct of Peats in Liverpool. Mr Tim Beer, the highly experienced Liverpool partner who was also to become joint liquidator of the collapsed Savings and Investment Bank with Mr Michael Jordan of Cork Gully, became a visiting partner.

Peats then had six staff; now it has 65, of which 45 are professionals of one sort or another, including management consultants. They, too, cover a widening range of markets, servicing the banking, insurance, shipping and fund-related industries.

The growth is not just because Peats took over the local accountancy firm of J G Fargher in 1983, for each practice had only 15 staff then. Organic growth has seen a doubling and more in total numbers employed.

Mr David Burton at Touche Ross tells a similar story. Touche started in collaboration with a small local firm but decided to develop under its own steam about three years ago. When it adds a training intake of four in September it will pass the 30 mark in terms of total staff and is moving to new offices to accommodate them.

"All of our growth has been organic," Mr Burton says. About half is traditional audit business, the rest a mixture of tax planning and offshore activity. He recently toured Touche Ross offices in the Far East and Australia and was pleased to find the extent to which people were aware of the Isle of Man compared with only a few years ago.

Mr Burton has run seminars on economic, legal and taxation issues for some time, importing Touche experts or consultants retained by them to lecture. The firm also runs an annual budget briefing, starting within a few minutes of the Finance Minister sitting down. Things like this helped create an expectation of service and depth of back-up which people on the island were not used to previously.

There has also been an effect on training which is likely to be important and beneficial to the island. Touche Ross will take on yet more trainee accountants next spring. Peats recruits regularly, as do PKF and the other larger practices. This is very different from the past, when PKF bore the brunt of training most of the island's future accountants.

PKF gives preference to applications from native islanders but admits, as do the others, that demand is going to exceed supply for the foreseeable future. The government would prefer that all trainee accountants were local, but recognises it cannot be, given the rate at which the demand for professional services is growing.

Recruitment from elsewhere in the UK is therefore unavoidable, which means that there

are opportunities for likely graduates who want to get into an offshore environment early.

So is the market big enough for more of the top twenty accountancy firms to move in too? That may depend on the extent to which fast, sustained growth continues. One thing is certain: anyone wanting to move in cannot do so halfheartedly or a willingness to commit big resources for back-up.

Mr Pell-Hiley says: "Representation alone is not the way ahead for a big company now. Yet for all the growth, the island is too small to support a big indigenous market in accountancy services. You have got to have resources elsewhere, which means being part of a bigger group."

Financial supervision has also introduced another constraint - auditors of banks, funds and various other financial companies have to carry so much professional indemnity insurance that the balance has shifted permanently towards the big boys.

"We have benefitted substantially from a flight to quality in financial services," Mr Pell-Hiley says. "You need a full office to maintain quality control and have to have the resources to support it. You also have to demonstrate commitment and show you are serious about it."

The accountants are beginning to reap the rewards of putting in resources early and not worrying too much about profits while they become established. Now they are reaching the critical mass to offer profitable and specialised services. At the same time, clients are benefitting from greater competition for audit work. The island's professional infrastructure has never been in better shape.

Ian Hamilton Fazey

LEGAL SERVICES

# Local gap begins to close

NEW DEVELOPMENTS on Athol Street in Douglas are of great significance to the Isle of Man's professional services. T W Cain and Sons, one of the island's oldest and most respected law firms, has opened a new offices a few doors away from its long-established headquarters.

This is not just an expansion, for the new offices house the firm's specialised commercial law department - something unheard-of in Manx legal circles until recently.

Moreover, Cain's is offering a guarantee for clients using its commercial services - in most cases it promises to deliver an answer to a legal query within 24 hours.

This signifies the degree to which the great gap in the Isle of Man's professional services has closed under the market pressures of recent years. The burgeoning financial sector used to make no bones about its view of local legal services lagging massively in terms of development and speed of response.

The small Manx Bar was overloaded with work but the outside perception was of a closed shop fighting to keep it all to itself. Having too few members also led to conflicts of interest.

The members - who are called advocates and beset the traditional English division between solicitors and barristers - were mainly general practitioners in an age where there was a growing need for specialists, particularly in international finance.

There was pressure on the government to be more welcoming to specialist lawyers from other jurisdictions. Theoretically, they could set up anyway, but were restricted from operating in Manx courts. Moreover, some were put off by worries about market size, the welcome they would get and

lack of regulation - anyone could put up a brass plate calling themselves a "solicitor."

Regulation has meant that only people properly qualified in another, recognised jurisdiction can operate now. Those licensed by the Attorney General are allowed in for their specialised skills but are not allowed to appear in Manx courts, convey property or take on probate work.

This has protected the traditional bread-and-butter markets of the Manx Bar but has not insulated its members from specialised competition. The arrival last year of Travers

Smith Brathwaite, another leading firm, is following a similar route. Other Manx advocates have also developed the skills needed by the international financial sector. The improvement over recent years is admitted by previous grumblers.

So has Travers Smith Brathwaite wasted its time? Mr Robert Quayle, the former clerk to Tynwald head-hunted to run the operation, says: "Not at all. We are quickly satisfied and well ahead of forecast in terms of profitability."

"The island needs qualities of excellence in its professional services and our purpose is to help achieve that. Fast, efficient service is what people want."

The firm has grown quickly to two solicitors and two secretaries, with back-up visits from London by Mr Roger Dixon, another partner. "We are here to complement the local structure," Mr Dixon says. "For many years we have had something going on here for various clients and they it was who urged us to set up."

Jaques and Lewis, another London firm, are now present in Douglas in even bigger numbers, having taken over Duggan Lee, an existing firm of English solicitors. Its staff include four solicitors and a tax expert.

Mr George Stuart says: "There was originally a suspicion among Manx advocates that we were trying to muscle in, but we are not interested in doing what only Manx advocates are allowed to do."

"We don't want to appear in the island's courts or do real estate work or probate. We specialise in fields such as trustwork and tax planning. We are now feeding Manx advocates with work, and they us."

Mr John Glasston, another Jaques and Lewis partner, is co-author of a new book *Trusts, tax and estate planning through the Isle of Man*, which is to be published shortly by Key Haven Publications of London at £100 per advance order, £125 after it comes out. He sees a market developing on the island for trusts set up

by individuals wishing to avoid the rigid, possibly outdated inheritance laws of some countries. "This sort of trust is increasingly in demand among 'international citizens' - individuals successful in industry or commerce internationally who are not firmly based in any one country," he says.

"International" succession planning is a growth area and in my opinion will outstrip the use of trusts for tax planning in the longer term," Mr Glasston says. He sees the Isle of Man as an important international centre for such work, with Manx advocates earning fees from those tasks which only they can carry out.

Travers Smith Brathwaite foresees a growth in mergers and acquisitions as an important source of future work. It is also already for the acquisition of Cresta group, which is based on the island. "The Isle of Man is an attractive place for international entrepreneurs," Mr Quayle says.

Its other main area is corporate finance. Mr Quayle has been already prospecting for work in the Far East and Australia. The firm's first year has led to it feeding work to Manx advocates but it has not yet benefited from work flowing the other way.

With the market increasing in size, however, Mr Quayle and Mr Dixon are not unduly concerned by this.

Mr Crellin too has more than enough work to divert his attention from what the newly-arrived competition is up to. "We have been so busy that I haven't had time to think about how busy I expect to be," he says amiably.

Nevertheless, a steady resistance is apparent behind his charm and gentlemanly politeness. He wishes lawyers from other jurisdictions had not been licensed in the way they have.

"We have gone some way down the learning curve and can do it all from here. We don't see a lot of work where we need to ask questions of English law. The complaints that were alleged to exist cannot be made now. English solicitors should take the Manx law exam. They are practising Manx law and there are idiosyncrasies."

Ian Hamilton Fazey

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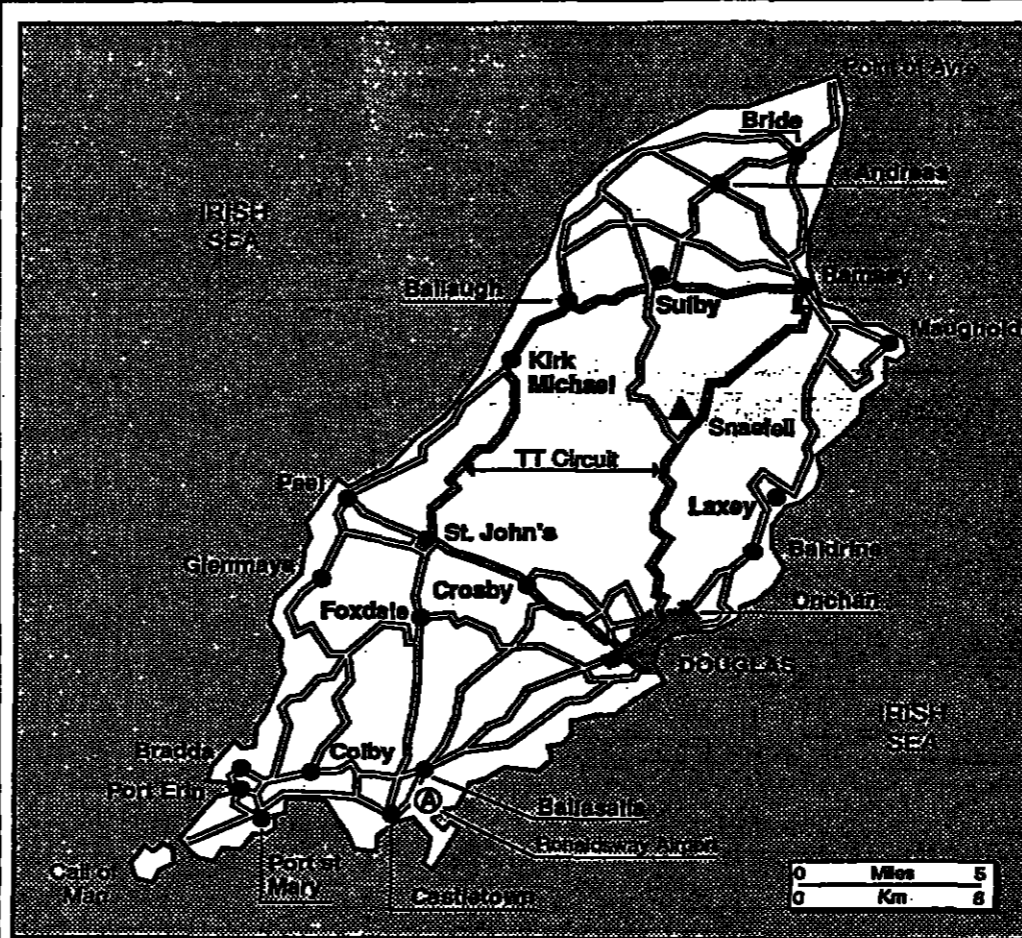
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KEY FACTS

Location: Irish Sea, 30m from England, 27m from Ireland, 16m from Scotland, 48m from Wales  
Area: 221 sq miles  
Length: 32.5 miles  
Breadth: 13.5 miles  
Highest point: Peak of Snaefell 2,036 ft  
Climate: temperature -7 deg C to 25 deg C. Rainfall approx 1,000mm annually.  
Population: 64,282. Main towns: Douglas 20,368, Ramsey 5,778, Peel 3,650, Castletown 3,019  
Average house price: 1984 £39,974; 1987 £41,012  
Banking licences 45  
Insurance companies 68  
Accountancy firms 59  
Advocates' practices 16  
GDP £200m (1985-86)  
Govt receipts £116m (1987-88)  
Govt spending £108m (1987-88)  
Basic tax rate 15 per cent  
Higher rate 20 per cent  
Corporation tax 20 per cent



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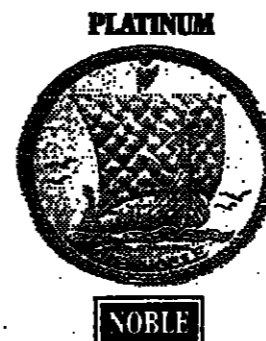
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## ISLE OF MAN 3

## FINANCIAL SERVICES

## A wider spread with room for growth

**JOBS IN** the Isle of Man's finance industry increased by 38 per cent to nearly 2,100 in the six years between 1981 and 1987, according to a survey carried out by the island's government last December.

However, the figures do not tell the story, for the change is more importantly qualitative than quantitative. Moreover, the growth of the industry has only just begun. The quality of newcomers is high and they all expect to grow substantially.

Before the island set its regulatory house in order following the collapse of the Savings and Investment Bank in 1982, it was little more than a deposit-taker, with some deposit-takers more respectable than others. As a provider of financial services in general, the Isle of Man offered little.

While the government sorted things out, there was an embargo on new banking and deposit-taking licences, so that serious international promotion of the island as an offshore centre did not really get under way until 1985.

A trickle of newcomers in the last two years has seen the number of licensed banks rise to 46, with new attitudes now very apparent. They are probably best personified in Mr Nicholas Owen, the managing director of the new Robert Fleming banking operation in Douglas.

Fleming was one of the first full banking licences granted after the embargo was eased. Mr Owen, 36 years old and a Master of Business Administration (MBA) as well as a banker, has a combative air about him. "We are trying to develop a fully international investment bank here," he says.

"The nature of our work is different from what people have seen here before. In the past the Isle of Man was used by banks for deposit-taking, not as a trading centre for making good profits. We have a much more sophisticated investment approach."

Total staff number 14, including two other bankers, one of them also with an MBA. Mr Owen is looking for a chartered accountant and a chartered secretary. Fleming runs its own money book. He claims that most local competitors have not even got better screens and merely pass deposits on to the London market.

He sees his market growing all the time as, for example, the island's insurance industry expands and the captive insurance companies in particular have large sums to be managed. For deposits exceeding £500,000, he offers a bespoke service.

"Portfolio management at the institutional level has been very good. We have developed much more local business than we expected," Mr Owen says. Fleming has also been doing good business in locally-run foreign exchange dealing, allowing depositors to switch between currencies at wholesale rates.

While Fleming is not very interested in private portfolios much below £100,000, Warburg Investment Management will go down to £50,000, with a £250,000 floor for corporate



Athol Street, Douglas: heart of the Isle of Man's commercial district

business. Warburg has been one of the government's three investment advisers since 1989, prompting a joking aside from Mr David Cannan, the Finance Minister, about taking 18 years to decide to open an office on the island.

However, the bank had been active since 1979 and in 1982 took over two unit trusts from Barclays in Douglas. "We felt for the first time that there was critical mass of business for it to be worthwhile opening here," says Mr Barry Beale, the director in charge. He too sees the developing insurance sector providing substantial corporate business.

The latest big arrival on the island is the Bank of Bermuda, which recently bought out Kleinwort Benson and the Montreal Trust Company from the jointly-owned Arawak Trust, giving the bank control of Arawak's operations on the Isle of Man.

Arawak's licence - a restricted one enabling the holder to manage banks licensed in other jurisdictions - has been transferred. Mr Jim Noakes, the island's banking supervisor, says that any application for full licence by the Bank of Bermuda will be looked at "very positively".

Bank of Bermuda senior managers were on the island two weeks ago for discussions. Meanwhile, NatWest International Trust has bought out Royal Life of Canada from Roywest, a formerly jointly-owned trust operation, and has chosen the Isle of Man as its European headquarters. It is putting up its own building and will eventually employ 200 people.

Another newcomer is British and Commonwealth, whose way in was to buy Douglas Bank, one of four existing banks for sale to suitable buyers which means that the purchaser must be approved by Mr Noakes.

The other three are the Anglo Manx, Mercantile and Overseas, and the Celtic Bank. The last of these is owned by the supermarket and property

millionaire Mr Albert Gubay, who stresses that he does not really want to sell, but might if someone acceptable to the government made a good enough offer.

The bank's latest results, published last month, showed a record profit of £1.8m, which

### The quality of the newcomers is high

may account for why Mr Gubay is in no particular hurry to sell.

Some of the traditional clearers have not been standing idly by while all this activity has been going on - and although NatWest has reduced its activities to one branch in Douglas, it does have the Isle of Man bank as a wholly-owned subsidiary.

Mr John Allen, a native Manxman who stepped up from deputy to general manager last year, puts the bank's share of the retail market at 50 per cent, with Barclays second at about 22 per cent. Mr Allen heads an operation with 15

branches and more than 300 employees. He can be fairly accurate in such estimates because the Isle of Man is the government's bank and processes everyone's payments of rates each year. It can work out each bank's share of the market simply by counting the cheques.

The Isle of Man Bank is unlikely to lose its market leadership almost by virtue of its name alone. But it is also working hard to earn to its keep. It is self-contained, with comprehensive data processing, so that it does not have to call on its mainland parent for anything and no one's accounts are in any way handled off the island.

Last year it made its overseas department an autonomous branch under entrepreneurial management, which promptly justified the decision by turning in £300,000 of profit in its first year. In the same period, the local deposit base rose by 3 per cent to £65m.

With the Royal Bank of Scotland determined to make an increased impact, Barclays, which has six branches on the island, has reorganised to safe-

guard its position. The Manx operations report to Liverpool where Mr Brian Thaxter, the new regional director, decided that Barclays needed to do much more in the fast developing Manx marketplace.

He has put Mr Eddie Shallock, one of his top managers, in charge, bumped up the managerial team from three to seven, with two more to come, and centralised services on Douglas so that the resulting economy of scale will allow them to be segmented into specialised departments.

It means that half of Barclays' 120 staff are now concentrated in Douglas, compared with 45 previously. Barclays expects to do well with its Douglas business centre for industry and commerce, an international department and a private banking unit for better-off customers.

The banks are on their mettle, however, because British building societies are now moving in. The Leeds, Nationwide and National Provincial have arrived already, with Britannia and Bradford and Bingley about to.

They will use the island primarily as a base from which to tap offshore savings for the benefit of the UK housing mar-

ket, but they are already having a major impact and may well have taken in £100m of local savings in their first few months.

Generally they are offering 1 to 1.5 per cent more in interest than the clearing banks, some of which are responding with special deals for deposits of £10,000-plus, provided the money goes on one month's notice.

Meanwhile, the island's insurance sector grows rapidly. Dr Bill Hastings, the new insurance supervisor, says there are now 71 authorised insurance companies on the island, 52 of them captives (subsidiaries) of large corporations which use them to arrange their own insurance.

The island's Exempt Companies Act of 1981 was written especially to attract the insurance industry. They use the island as a base but write their business abroad. The Act then exempts them from income, capital gains and corporation tax.

The gains to the island are jobs, not only in the industry itself but also among the suppliers of goods and services which the insurance companies buy in. Royal Life, which provides more than 100 direct jobs in Castletown and has a rapidly growing share of the expatriate market, is moving to bigger offices to allow for yet more expansion.

CMI, which started up only last year, is already up to 45 staff, even though Mr Mike Richardson, managing director, admits that everyone is still learning how to market global products with no network of brokers and intermediaries to help them, as in the UK.

The other big names in life insurance on the island include Eagle Star, NEL, and Equity and Law. Allied Dunbar and Barclays Unicorn are also in the marketplace as fund managers attacking the same or similar markets.

Financial services therefore look very different from six years ago, when the island was a definite backwater compared with Jersey and Guernsey. Now it has a wider spread and room for growth. Only staff shortages seem likely to hold it back.

Ian Hamilton Fazez

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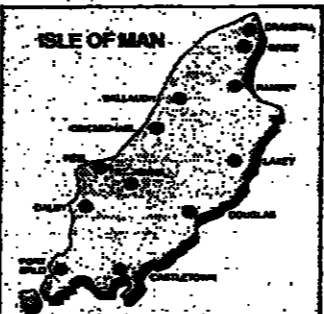
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Mr Jim Noakes, the island's banking supervisor

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## ISLE OF MAN 4

The economy: high pay in the financial sector is causing concern

## The quest is for quality

THE ISLE of Man's thriving financial community now so dominates perceptions of the place and contributes so much to its income (nearly 30 per cent) that there is a tendency to overlook the fact that it accounts for only 6 per cent of employment, the same as public administration.

Manufacturing and the distributive trades employ between them 26 per cent of the working population; the construction industries 11 per cent; professional, educational, medical and scientific services a somewhat surprising 14 per cent; transport and communications 9 per cent; agriculture, forestry and fishing 5 per cent; and tourist accommodation, catering and entertainment 8 per cent.

The island has, in other words, a reasonably well-mixed economy. But such is the influence of the financial sector that some inherent dangers are seen.

Not the least are early signs of opposition to what some regard as the creation of "two nations" on a tiny and - in the official view - still under-populated island. Predictably, such complaints are voiced among those who work outside the financial sector: their pay is much lower, but their costs

- especially housing - are strongly affected by the affluent "incomers".

The Isle of Man Government is anxious not only to nip such arguments in the bud but also to demonstrate its commitment to removing the inequalities from which they stem. It has set out its approach in its policy statement, "The Development of a Prosperous and Caring Society".

The Government can, in practice, do little to restrain the effect of market forces on prices, nor does it want to. Instead it aims to create conditions in which both existing and new island activities can move towards much higher expectations for those engaged in them; what it describes as the "management of growth".

The island's success in quite rapidly established itself as an important base for ship management and registration is good example of its approach in action. Following the 1984 Merchant Shipping Registra-

tion Act, there are now more than 200 ships either already on the island's Marine Register or awaiting registration.

In the more traditional industries, the answers are not so readily found. Although the bulk of the island is indeed a green and picturesque land, agriculture (which is quite heavily subsidised for political, strategic and social reasons) employs fewer than 500 people. Grassland and hay cropping predominate and there is little in the way of horticulture.

A once-proud fishing fleet of some 300 herring boats around the middle of the last century is now down to a handful of vessels. These days the famous Manx kipper is most likely to have been caught and landed by a foreign fisherman. Herring still abound in the island waters, but the native fishermen are few, though the local delicacy of the queen scallop - the "queenie" - remains a prominent feature of all good restaurant menus.

In terms of national income, agriculture, forestry and fishing combined now contribute less than 3 per cent of GDP.

Manufacturing industry is quite another matter. It is a vital part of the island's economic structure, providing 13 per cent of jobs and some 15

per cent of the national income. There are more than 250 manufacturing companies, mainly medium-sized or small, ranging from the utilitarian basic to the more esoteric realms of laser optics and micro-electronics. A payroll of 500 is about the biggest to be found in the private sector.

To attract more manufacturing industry and achieve a better balance with the financial sector, the island has - in addition to its favourable taxation structure - put together a package of inducements. They include capital grants, operating grants (including marketing and training assistance), loans and rent rebates.

With unemployment now under 4 per cent (it was almost double that three years ago) the Isle of Man can afford to be - and is - choosy about the kind of companies it allows in. It wants modern clean, environmentally-conscious companies involved in high added-value and high wage activities. Its "management of growth" strategy allows the island to reject what it doesn't want and wait for what it does. There are clear signs that these policies are working.

R W Shakespeare

## A pointer from De Beers

MR JOHN Campbell is one of life's enthusiasts. As the head of Tudor Homes, one of the Isle of Man's leading civil engineering and development companies, he is also both highly successful and deeply committed to the island, its way of life and its ambitions for the future.

Now he is also managing director of Freeport Properties, a private company appointed by the Isle of Man government to construct and manage the island's 20-acre Freeport beside Ronaldsway Airport.

It is fair to say that Mr Campbell saved not only the project but also the government's face. The Isle of Man Freeport was rushed in five years ago to beat those then being designated in the UK. But it never got off the ground. British Land was going to develop it but could not reach agreement with the government about terms and so withdrew.

Mr Campbell eventually took over the project, forming the new company to invest an initial £2m in the site infrastructure, administration centre and two warehouse units. He expects the total investment to rise to £20m over the next four to five years. The government is putting £38,000 towards the

installation of services.

Mr Campbell confidently expects that "Europe's only offshore freeport" will show a handsome return for his own company as well as making a major contribution to the island's economy.

It may not be the biggest of the freeports, although there is ample scope for further development, but it will aim to be the best. In particular, I believe that the administration centre, with its fully-computerised systems, will set new standards," he says.

An international marketing campaign to attract business into the freeport is getting results, most of which Mr Campbell is not yet ready to talk about publicly because he does not want to count his chickens prematurely. But the fact the South African-based De Beers group has decided to invest about £30m there is a pointer to the kind of big fish he is hoping to land.

De Beers has formed three Isle of Man subsidiaries for its industrial diamonds processing operations, making products for cutting tools in mining and for high technology applications. It opened quietly this month.

De Beers does not like publicity at this end of its

operations and there was a great deal of sensitivity last year at attempts to link the project to an alleged, clandestine, potential sanctions-busting scheme in which the island was to be a back-door to Europe for South African exports in general.

There had been enquiries from South Africa, and the government had answered them politely, but it is opposed to apartheid and accepts guidance from the UK on harmonising foreign policy. The UK would never have agreed, and the project would never have been approved by Tynwald anyway.

The De Beers venture, however, is a straightforward place of industrial development, with operations similar to others carried out by the company elsewhere in Europe. The head office will be on the one hand the venture will create about 150 jobs, while on the other, freeport status means that industrial diamonds can be shipped in, processed and shipped out again without incurring VAT.

This is exactly the sort of business the government wants to see. Very expensive raw materials, which achieve high added value through processing, can pass in and out

without the bother of the inevitably high taxes they would otherwise incur. Security is also good. De Beers' operations are linked directly to the airport next door by a private road.

De Beers will, of course, also benefit from number of other advantages that stem from the Isle of Man's autonomous position and its special relationship with the European Community. Tynwald offers an enticing package of grants and loans for manufacturing companies, many of which could be applicable to certain freeport activities.

They include capital grants of 40 per cent on new buildings and machinery, grants to finance such things as special training, commissioning, running in and transfer costs, and loans up to 50 per cent of working capital requirements with low interest rates and deferred repayment.

All this against a background of a maximum income tax rate of 30 per cent on both company profits and individual earnings, capital allowances on investments, no surtax, no capital gains tax and no capital transfer tax.

R W Shakespeare

## ECONOMIC AND SOCIAL POLICY

## Fostering investment and meeting its consequences

REPUTATION IS a word that these days gets high priority in all of the deliberations of the Isle of Man government and its various executive arms.

In the early 1980s the island saw what are now officially described as "certain difficulties" within its banking structure. In fact, a major banking organisation, the Savings and Investment Bank, collapsed completely with more than £42m of investors' money. It was hardly a "little local difficulty", because it dealt a severe, potentially mortal, blow to confidence not simply in the financial sector but the island's economy as a whole.

The Isle of Man wants no more of that and is determined not to have it. The traumatic events of the early 1980s clearly did not help the island weather the period of depression, largely imported from mainland Britain. Stagnation, falling property values and high unemployment levels hit hard. It was no time to also pick a reputation for any sort

of dubious dealing.

It is all the more remarkable, therefore, that today the Manx government is able to go on record with an unequivocal statement that "it has seldom been possible for us to look forward to the future with more optimism and more confidence, and seldom has there been a better opportunity to tackle fundamental problems."

The government has set out its definition of what those fundamental problems are and its philosophy for dealing with them in a comprehensive policy statement, "The Development of a Prosperous and Caring Society".

It is less of an exercise in semantics than its title might suggest. It is this document that makes it quite clear that, in its presentations to the outside world, the Isle of Man aims to build a firm identity with quality and reputation which cannot be challenged. It says: "These qualities are vital to the attraction of new and reputable business. We are pro-

posing legislation which will designate activities which will be prohibited for Manx registered companies. This will be a significant step in curbing unwelcome activities by companies operating mainly outside the island and damaging its standing and reputation."

The all-important financial sector has now not only rehabilitated itself, after the crisis of confidence, but is once again the island's major growth point and the catalyst for much else happening throughout the economy. It is now subject to stringent controls, shortly to

be reinforced by further legislation.

Among the problems the Isle of Man faces, the government identifies:

■ Low national income per head of population, with average earnings just 58 per cent of those in the UK average. It says, seriously limits standards of living and government revenues.

■ Lack of significant identified natural mineral resources capable of commercial exploitation.

■ Limited population and isolation, which means that the island lacks the inherent demand for goods to ensure their supply at economic cost.

■ A naturally declining population requires some net immigration in order to maintain levels. "There is also a relatively large elderly population, with 24 per cent of those on the island over retirement age - a third more than the average for the rest of the UK. There are consequent burdens on the health and welfare services."

■ Technology and the changing structure of industries mean that many of the island's workers have skills that are inadequate or inappropriate to take advantage of new employment opportunities.

■ Government expenditure has been rising quickly - twice as rapidly as income between 1981 and 1986.

■ The island is susceptible to external influences over which it has no control - for example, those that led to economic stagnation in the early 1980s and developments within the EEC which could threaten the island's freedom of action.

The other side of the coin is that the Isle of Man can list some positive advantages: good

environment, political stability, low direct taxation and no capital taxes, a low crime rate and freedom from social strife, good communications and high quality public services are among them. A low population density - only 281 people to the square mile, compared with, say, Guernsey's 2,277 - gives the Isle of Man scope and capacity to absorb quite considerable development and increase in population without serious damage.

Projected population changes over the next 15 years show a significant decline in the proportion of elderly, while the numbers in the working age group remain reasonably stable, suggesting a better balance of population for the future.

The government policy statement says prosperity cannot be created by government, though it can encourage, promote and stimulate others to invest and develop business to generate prosperity. It adds: "We believe we have established the pre-conditions for continuing growth in a variety of areas. The growth and development that we now confidently expect will reflect in improved government revenues. This in turn will allow us to sustain and improve our services for the benefit of all."

The government admits, however, that it will not be enough simply to create the conditions for growth and then simply allow things to take their course. Growth will, it says, inevitably cause some strains and some social and economic problems. It therefore sees the skilful management of growth as a key gov-

ernment preoccupation. It adds: "One of the great challenges facing economic policy will be to ensure that increasing prosperity is shared by all. To raise the living standards of a few and ignore the needs of the many would be both unjust and divisive."

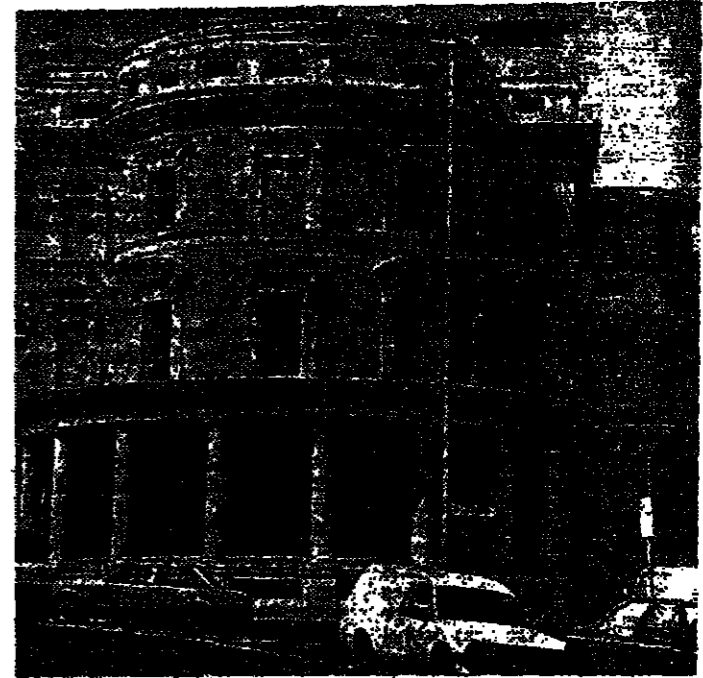
"We must use the tax and benefits system to ensure that effort is rewarded and hardship eliminated. Specifically we must continue to push up the income tax threshold and progressively remove those on modest incomes from the direct taxation net. We must be as generous as possible for the aged and low incomes, for the disabled and for those disadvantaged and unable to work. Everyone must share in the benefits of progress."

Protection of the island's quality of life will, the government states, be a significant responsibility in the face of growth. Elements that will need to be particularly safeguarded being the environment, political and social stability and those parts of the public services that will be sensitive to additional demand.

On environmental matters the policy statement stresses the island's vulnerability to "external factors" and it underlines its determination to continue to pursue its policy of seeking the closure of the Sellafield nuclear processing plant on the Cumbrian coast "through every forum open to us". It is discussing joint monitoring programmes with the Irish Government.

R adds: "Although Sellafield is the highest-profile threat to our external environment, we need to be watchful for other potentially adverse developments and must be prepared to work with others to reduce the levels of pollutants getting into the Irish Sea."

R W Shakespeare



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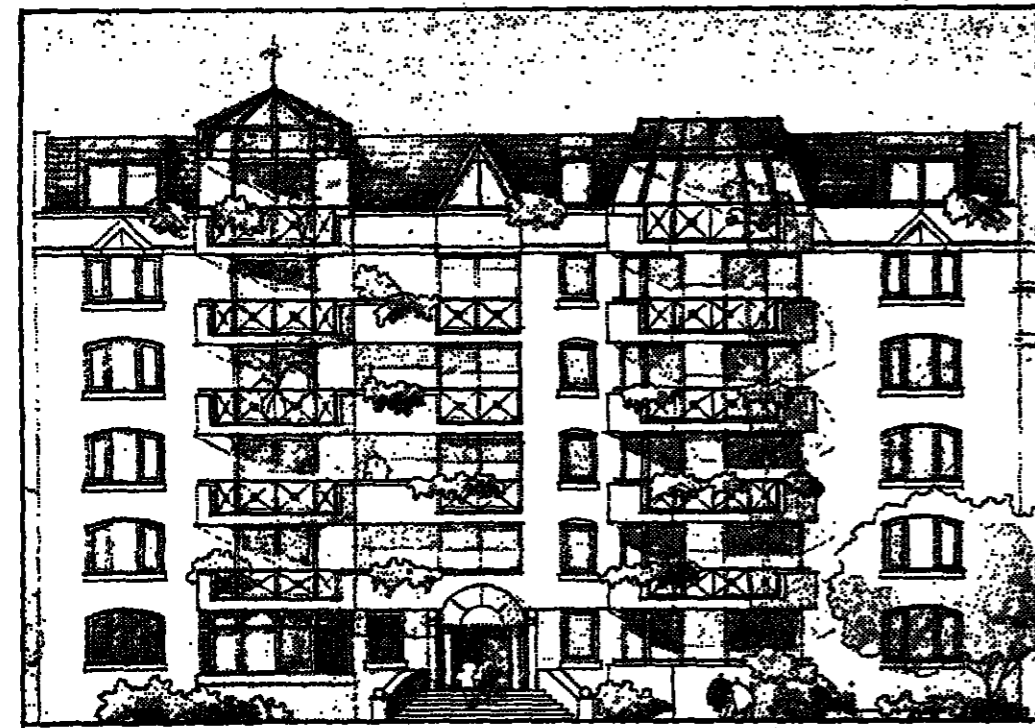
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## ISLE OF MAN 5

The property boom is being held in check by planners' restrictions

## Strategy may prove too inflexible

THE FACT that 11 per cent of the Isle of Man's working population is currently employed in the construction industries - only two percentage points less than those working in manufacturing - is one of the clearest pointers to the fact that the island is in the throes of a property boom. Not that such statistics are needed. The sights and sounds of it are at every turn.

Against the background of rapid expansion in the financial sector, the office market is extremely buoyant and many major developments and refurbishment programmes are under way.

Rental levels for modern office accommodation have risen sharply. The 50 sq ft level of two years ago to £10 per sq ft and more, for pre-lettings now being negotiated.

Most of the new office developments, of between 10,000 and 20,000 sq ft, now going on in Douglas are already pre-let and it seems highly unlikely that this year supply will keep pace with demand.

Mr Geoff Black, commercial director of property agents

Cowley Groves in Douglas, says: "Further expansion of the office sector is tightly controlled by the Douglas Town Centre Plan. Although this is currently under review, it seems likely that the island's planning authorities will continue to restrict office development to town centre locations."

Some further demolitions of older properties will provide sites for limited new development. But if the demand pressures continue - as they show every sign of doing - and with a five storey limit to new buildings in force, it seems inescapable that the authorities will ultimately have to re-think their zoning policies.

The island's natural magnet for those moving into the financial sector. But elsewhere on the island smaller business complexes are establishing themselves, for example at Ramsey, Ballasalla and Castletown where, for one thing, parking is very much easier.

The retail shopping sector is another now in the thick of a period of rapid change and development. In Douglas there

is, once again, a zoning policy in force with retailing focused on the Strand Street area, between Howard Street and Regent Street. Royal Life is at present constructing Douglas' first modern shopping centre there, having taken two years to assemble a site at the northern end of Strand Street.

The Isle of Man has been largely ignored by many of the big UK multiples for many

**Impressive homes are being built in the £200,000 plus bracket. But a halt has been called to local authority building**

years because of poor spending power among its small population. In the wake of increasing affluence and a burgeoning economy they are now moving in one after the other in quick succession.

Prime site rents which had languished at around £20 a sq ft for several years have taken

off to a current level which is, in some cases, double that figure.

The signs are that that in retailing, as in office development, the existing planning strategy may prove to be too inflexible.

Besides Douglas, retail developments are taking place at Port Erin and at Ramsey, where Montrose Holdings has recently completed a 17-unit Victorian-style Shopping Mall connecting Parliament Street with a new 15,000 sq ft store for Presto.

The island's industrial property market is largely centred on a number of strategically-sited industrial estates. Rents are generally established at £2 a sq ft, rising to £2.40 for some smaller units.

This is a level which - coupled with the various elements in the government's industrial aid programme - is reckoned to be highly attractive to new industries.

House prices on the Isle of Man are generally lower than those in mainland UK but, viewed by the established island resident they have, dur-

ing the past couple of years "gone through the roof" - rising by an average of more than 30 per cent.

Much of the house building now going on caters for the upmarket sector, with some impressive "executive style" homes, in highly desirable sea-front areas, like Onchan, in the £200,000 plus bracket.

Problems exist elsewhere in the market particularly for the younger, first-time buyers who are finding themselves priced out. A number of schemes to add to the stock of lower priced housing and correct this imbalance are currently under consideration and, fortunately, the one thing the island is not short of is space.

At the moment a halt has been called to local authority house building, apart from one or two sheltered accommodation schemes, and efforts are being concentrated on the improvement of the existing stock of some 5,000 dwellings. This policy is due to be reviewed as the planned population increase takes place.

R W Shakespeare



Wm "Lady Isabella," the Lassy Water Wheel built in 1854, turn to a more sophisticated image?

## TOURISM

## A move upmarket

THE HARSH truth about tourism and the Isle of Man is that most of the images, acquired over the past half century or more, no longer sit comfortably alongside the new persons that the island is trying to project to the outside world. And yet they persist.

This is because of horse drawn teams and "mystery" coach trips, deck chairs and buckets and spades on the beach and paddles in the sea, fish and chip teas and kippers for breakfast.

It is also because of the - at best - fading elegance, or - at worst - downright shabbiness of smaller hotels and boarding houses along the Promenade and its side streets, or because of beer from Castletown Brewery, music by Ivy Benson and her band, and once a year the desecrating roar - and all too frequent deaths - of the TT motorcycle racing fortnight.

These are the things that brought half of Lancashire flocking over to the island in the 1930s, 1940s and 1950s, interrupted only by war. Now they go to Spain or California.

And yet, old habits die hard. Of almost half a million passengers who arrived on the island by sea and air last year, about half were holidaymakers or day trippers. They came from mainland Britain, predominantly the North, and from Ireland, north and south. They spent a great deal of money (accounting for more than 12 per cent of the island's GNP) and provided a comfortable, if not lavish, living for many thousands of the island's residents.

And yet too, everyone knows that left to its pleasantly nostalgic links with the past tourism will ultimately die - and sooner rather than later.

Quite apart from all other considerations, this is not the Costa anything or a Greek island. The weather is, to put it kindly, capricious. Even on the warmest of summer days, collapse from heat stroke is a minimal hazard. It is not, in short, the place for today's vast army of sun-worshippers.

The figures show the general decline - from 636,057 in 1972 to 493,460 last year. However, there is more to the trends than the global figures suggest. In 1987 arrivals by air passed the 200,000 mark for the first time in 11 years, while sea arrivals dropped to their lowest level of only 270,067.

The shift to the air is about much more business travel or short-stay tourism. It is about people coming for special events or for long golfing weekends.

These days the Isle of Man

Tourist Board targets much of its promotional effort - and budget - at a very different audience to the bikini and beach ball set. It aims to attract many more upmarket visitors, perhaps not in the same numbers but with head for head - a lot more money to spend. And there's the rub for a great many island residents who have often spent a lifetime making a reasonable living out of the "traditional" tourist trade.

That kind of visitor - the golfer, the angler, those who prefer a countryside or cliff-top walk or a quiet cove to a crowded beach, also expect other things. These include a comfortable hotel room with facilities en suite, good food and drink, room service, swimming pools and saunas.

The older, large hotels, others recently built and new ones now being planned are investing heavily in just those facilities, which are as much in demand by the affluent business community and its visiting clients, as the tourist board hopes they will be a new breed

of holidaymakers. Owners of the many smaller hotels and boarding houses could not afford the kind of investment needed to compete in that sort of market - even if their premises justified it. Some are already being bought up to provide the sites for new hotels, restaurants, shops and the inevitable wine bars.

Some will survive of course. Others will simply close as the changing pattern of tourism overtakes them. For Douglas in particular the residual problem will be that of deciding how the seafront area will ultimately be redeveloped to enhance the Isle of Man's new upmarket image. So far, the Manx government has set its face firmly against allowing any spread of office and commercial property development to the Promenade area.

The opportunity exists for an imaginative approach. How the Isle of Man grasps it will decide much about its "look," "feel" and atmosphere in the coming decades.

R W Shakespeare

## HOTEL DEVELOPMENTS

## Good news for business travellers

SOME PEOPLE may have misgivings about the Isle of Man's ultimate future in tourism, but those in the top end of the hotel business are clearly not among them. In a flurry of activity involving substantial investment by the major hotel owners, and developers of new ones, are gearing themselves up for a new "Golden Age" - with tariffs to match.

For many months now the visitor has been hard put to find a room in a decent hotel out of earshot of workmen's hammers. Spurred on by the prospect of lucrative trade from the island's exploding business community and its visiting associates, by the potential of a high powered conference or seminar and by the Tourist Board's vision of a new breed of more upmarket, short period, special-interest holidaymakers, the hotels are busy speculating to accumulate.

They are spending millions. The hotel most widely used by business visitors, the Palace, on the Promenade - when it went up in 1980, it was the island's first new hotel since the Great War - has been undergoing a substantial facelift for some months now, including the addition of a film luxury Health and Leisure Centre, with three separate swimming pools, a solarium, saunas, steam rooms and a gymnasium - all in "a setting of waterfalls and tropical

plants." The island's casino, which the Palace houses, is also being reconstructed. Although the only modern hotel in Douglas, the Palace has been criticised in the past for not being up to "the standards of a modern hotel." It nearly lost its government licence to operate the casino last year and is determined to make sure that

ers, the Montague Group. From a state of sorry dilapidation it has now re-opened after a £3m programme to restore it to splendour. Its chandeliers glitter in the Regency decor. Prices start at £45 (single) and can be as much as £190 a night for some of its 65 bedrooms and a dozen suites.

The Palace Group also owns the Golf Links Hotel, at Castle-

Other Douglas hotels like the Empress and the Sefton have also launched major improvement programmes in which swimming pools, health and leisure clubs, steam rooms and saunas, sun beds and jacuzzis abound. The Villiers Hotel, a Victorian landmark, is at the centre of a project that will involve the demolition of a line of private hotels from the same era together with the hotel itself. A planned £2m development on this Loch Promenade site will include a new four-star 112 bedroomed Villiers Hotel together with a mixed commercial and retail complex.

Meanwhile, in the north of the island, the Grand Island Hotel at Ramsey has been refurbished and decorated throughout in country house style. Its new Club Henley also offers swimming pool, jacuzzi, gymnasium, sauna, sunbeds, steam room and the services of a beautician and hairdresser. It has to overcome the psychological barrier of being half-an-hour from Douglas and at the

opposite end of the island from the airport, but quality may help it do so, particularly if pressure of space forces businesses to look beyond Douglas for room to grow.

Indeed, the biggest hotel scheme ever mooted for the island is planned for the west coast on the seafront at Peel by Island Resort Hotels, a subsidiary of the Washington-based Barlows Development Corporation. It envisages a 200-bed-roomed hotel and, on the headland above the town, with associated leisure and sports facilities, a restaurant and a conference centre. It would cost around £14m if it goes ahead.

One other place of good news for the business traveller however is that the defunct Admiral's House, a small but exquisite bed-and-breakfast hotel on the promenade, has been resurrected by Boncompagni, owner of one of the island's best restaurants.

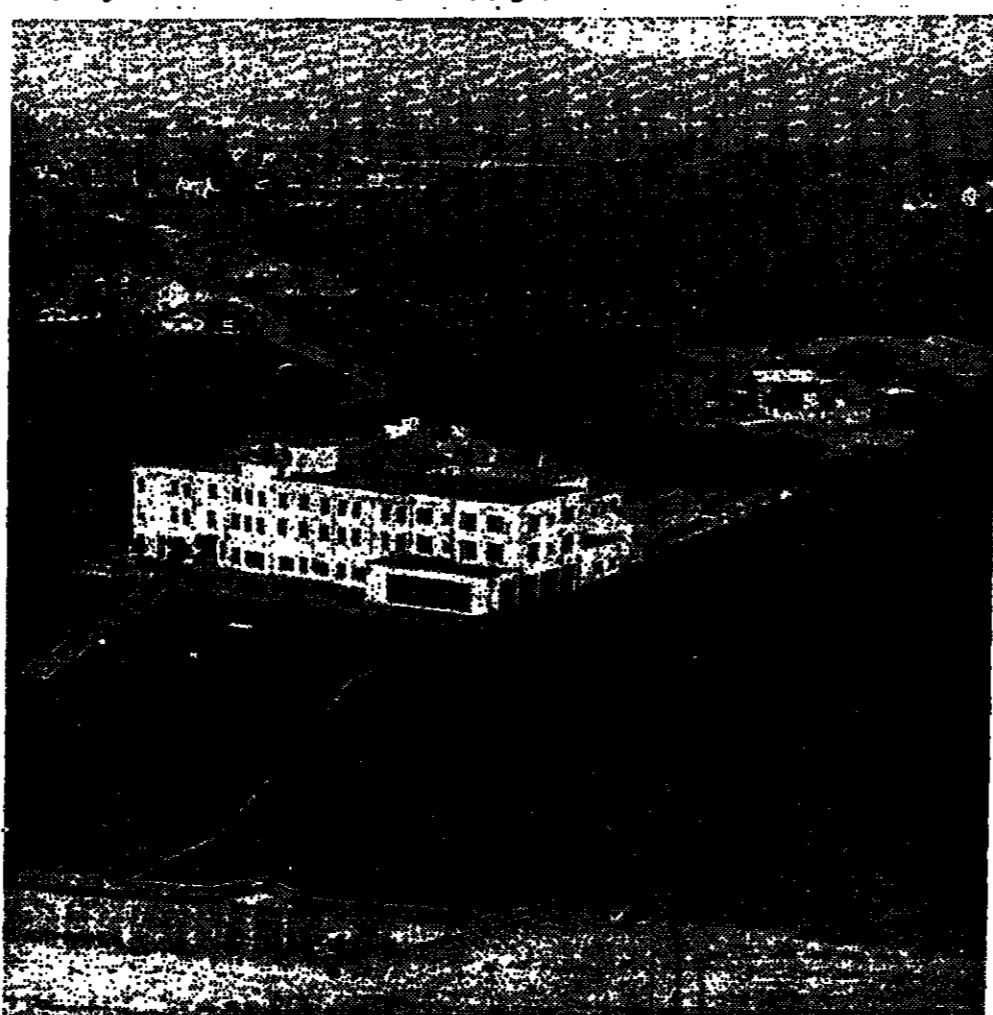
R W Shakespeare

**The biggest scheme ever mooted - for a 200-bedroomed hotel on the island by Barlows Development Corporation - would cost £14m if it goes ahead at Peel**

it never runs such a risk again. However, until the economic boom got going and the financial sector started mushrooming, hotels on the island were fighting for slices of a diminishing cake and there was not enough cash flow to justify the sort of investment under way now. Indeed, hotel closures have been more the order of the day in recent years, against which the background the Palace might fairly be viewed as a gallant survivor of a long period of attrition.

Casualties included the historic Castle Mona Hotel, next door to the Palace, built by the Duke of Athol in 1806. Economic recovery on the island has resulted in this fine building being rescued by new own-

town, overlooking Derby Haven. It took over in 1986, spent half a million pounds on upgrading and now plans to spend a further £2m on extensions to provide an additional 61 bedrooms. The group also owns the championship-standard Castletown golf links, which adjoin the hotel.



The Grand Island Hotel, Ramsey: country-house comfort half-an-hour from Douglas

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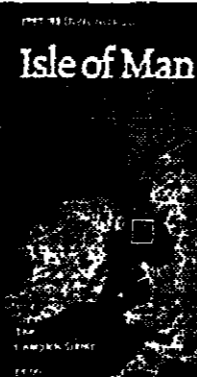
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## ISLE OF MAN 6

## PROFILE: MANNIN SEA FARMS

## Tame turbot and high tech

AFTER KIPPERS and that other Manx marine delicacy, the queen scallop comes... the turbot.

Two large green sheds near the end of the Ronaldsway Airport runway do not look up to much, yet they house some of the highest technology on the Isle of Man. Do not look here, though, for electronic wizardry or robots, but for human brainpower and knowledge at work. Inside the sheds, two marine biologists may well have solved one of the most difficult problems in animal husbandry - how to rear baby turbot in sufficient numbers to make it worthwhile. The prize could be worth millions.

The turbot is a rare, flat fish with juicy flesh. Less than 10,000 tons of them are landed from fishing every year and demand has gone unsatisfied since time immemorial. One reason is that there are not all that many turbot in the sea.

In the wild the infant mortality rate is 999,999 per million eggs. The scale of the problem facing Mannin Sea Farms, the company housed in the green sheds, is that commercial viability rests on a survival rate of 3 per cent - or 30,000 times better than nature.

Why it is all so difficult is that unlike the easy-to-rear salmon, baby turbot cannot eat just anything. When they first hatch they live in the plankton, they ingest, drifting among it at risk of being swallowed by bigger fish.

They start on microscopic specks called rotifer and, if they are not eaten themselves, they gradually grow big enough to swallow somewhat bigger crustacean specks called brine shrimps.

The secret of Mannin Sea Farms is to reproduce this food cycle in carefully controlled conditions, but without the predators.

Each tiny creature which gets beyond this stage has every chance of becoming a fully fledged turbot measuring a good foot in diameter, weighing about 1.8 kilos, and with a market price on its head of about £8 per kilo.

Not that they will make it this far at Mannin Sea Farms, for this is a hatchery. The aim is to get each fish up the size of a 10p piece and weighing about



Richard Slaski (left) and Paul West, founders of Mannin Sea Farms

1 gramme in about 80 days. At this stage they are sold on to fish farms in warm waters off Spain for £1 each. They will then take 30 months to reach marketable size.

All you need to do all this hatching and nursery work is about £500,000 of venture capital, a degree in marine biology and about ten years' relevant experience. There are very few people in the world so qualified, but they include Mr Paul West and Mr Richard Slaski. Aged 31 and 33 respectively, they have just set up Mannin Sea Farms.

Previously, they were with Golden Sea Produce in Scotland for ten years and were the brains behind that company's own successful turbot hatchery. But Norsk Hydro, the company's owner, decided to move operations to Spain and they did not want to go.

They were also on only £18,000 a year each, despite being the company's highest paid British-based scientists. About 18 months ago they went looking for somewhere to set up where they could do better for themselves.

Apart from the warmest welcome and a promise of £152,000 of capital grants, the Isle of Man offered the best prospects, with exceptionally clean water - despite what anyone says about Sellafield - and an airport outside the front door.

The water is fed into a series of tanks inside the 9,600 sq ft of

buildings, filtered, and kept at 20-22 degrees centigrade. This is about 6 degrees warmer than the wild and has the effect of doubling the young turbot's growth rate.

The original eggs from which the babies are hatched come from Mannin's own brood stocks of 190 prime specimens, themselves bought from fishermen or fish farmers. These are stripped of eggs or sperm three times a week for the three months of mating season each year.

They will live for six years or so and, eventually, the lights over their various tanks will have been adjusted and staggered so that spring will come at different times for different tanks, allowing eggs to be harvested for 11 months of the year.

As the young offspring grow, they are transferred to new tanks, with their numbers spread between more and more tanks as the fry get larger. Not that they mind a crowd. "Turbot are gregarious. They like it dense," Mr West says.

The transfers allow the little fish to be counted, so Mr West and Mr Slaski can tell their NatWest bank manager how they are doing.

When each fish is about a 5p coin across, they are weaned off plankton onto meal, quickly learning to feed off the bottom, where their underside eyes will start to migrate round their heads.

Being near the airport was essential to sales, for the fish go out alive as air freight. They are packed in water-filled polythene bags with enough oxygen for 30 hours. The key to live arrival at Spanish fish farms is to waste no time waiting for take-off at Ronaldsway.

Production of baby turbot started at Easter with great success. The current survival rate is 8 per cent of hatched eggs, or 80,000 times better than the wild. Production should reach 125,000 fish this year, 200,000 next year and 500,000 in five years - all at £1 per juvenile fish.

Overheads will peak at about £100,000, with variable costs at about 3 per cent of turnover, so Mannin's backers are hoping that the initial success will be maintained.

Who are these lucky people? NatWest, which put up £250,000 of loan capital under its growth options scheme, will be paid back at 15 per cent, while £1 should see the value of its £50,000 of equity grow like fish-farmed turbot.

The rest of the money came from Mannin Sea Farms' management, the bulk of it from Mr West's family trust. That was set up by his father, the best-selling Australian writer, Mr Maurice West, author - with an ironic aptness, perhaps - of *In the Shoes of the Fisherman*.

Ian Hamilton Fazey

## TRANSPORT

## Government seeks bigger say over sea links

WHEN THE most recent seamen's strike brought the Isle of Man Steam Packet Company's ships to a halt it was yet another reminder - if one were needed - of just how vulnerable the island is to prolonged industrial action.

True there are other shipping lines that carry cargo in and out of Douglas and the island has an efficient airport. Nevertheless, the Steam Packet Company is the major sea carrier of both passengers and day to day freight and it takes no quantum leap of the imagination to appreciate that any spread of strike action among other groups of workers - dockers, airport staff and the like - would soon put the island in very serious trouble, if not a state of siege.

It is a spectre that haunts the Isle of Man government and one about which it is more than a little sensitive - well aware, as it is, that its best-laid plans for a prosperous and respected, as well as largely autonomous society, are open to attack by the actions of workers who belong to mainland-based trade unions.

When the seamen's strike looked like running on into the start of the annual influx for the TT races in June, the government reacted promptly by chartering, for £1m, a 5,286 tons Ro-Ro ferry from the Fred Olson Line in order to ensure that a service to and from the island was maintained.

In the event, the Steam Packet strike was called off just as the chartered "Bolette" was sailing into Douglas for its statutory inspection by the UK Department of Transport. It was too late to call off the deal with Olson, so the ship spent its charter period running bargain price cruises and trips to Holyhead, patronised mostly by local residents anxious to escape from the motorbike

madness that grips the island. Not all of the charter costs were recovered, but as an "insurance" exercise it was probably worthwhile, although inevitably it had its critics.

The Steam Packet Company's position as a privately-owned "sole operator" of passenger and vehicle ferry services (and hence a large proportion of freight - amounting to roughly a third of its annual business) has troubled the Manx government for a long time. Last year, against a background of renewed pressure for nationalisation - which was resisted - the Shipping Com-

mittee of the Executive Council listed what it described as the "numerous problems" facing the company which by then merged with Sealink's Manx Line.

It was a pretty formidable list including, a "precarious" financial position, burdensome manning agreements, weak management, an old fleet, declining traffic, uneconomic routes and a background of all-giving shipping and tourist industries.

The upshot was a decision to appoint a firm of consultants, Wallem Specialist Management Services (Isle of Man) to conduct a study with a brief to examine all options.

The consultants have now reported and the Shipping Committee has reached some conclusions on its findings. Meanwhile, the committee says, there have been a number of developments.

The Steam Packet Company has improved its financial position. It has taken steps to resolve difficulties over manning agreements and its directors have agreed that there is a need to implement a range of other improvements. The company has also agreed to make its business plan available to the government to form the basis of future discussions.

The Shipping Committee has come up with its own set of proposals following consideration of the consultants' report and its discussions with the company.

It rejects - as did the consultants - any form of nationalisation. It also rejects the concept of another operator should be subsidised to compete against the Steam Packet Company "in order to stimulate efficiency and improve services." But this option is rejected by the government committee. It would, it says, be an illogical step to subsidise one operator in order to encourage another to undertake particular actions. In any event the outcome might, at the end of the day, simply be another monopoly.

The Isle of Man Government

holds a minority shareholding in the Steam Packet Company. The committee proposes that this should be sold. It says the shareholding does not provide for any measure of control and has proved to be an embarrassment during industrial disputes since the National Union of Seafarers that the government was genuinely neutral.

What most concerns the Shipping Committee is that the government, as things stand, lacks any real influence over the shipping company's operations in what, for the island, is a crucial area. It believes the government must have some form of sanction that enables "broad strategic issues to be positively influenced when appropriate."

It says that this would be possible if the government owned the linkspans at Douglas Harbour and it wants to enter into negotiations with the Steam Packet Company to buy them. Should these negotiations fail, Tynwald would be asked to pass legislation for their compulsory purchase.

Ownership of the two Douglas linkspans would give the government a neat but highly effective means of influencing policy since it would mean that it could grant, or withhold, the vital use of them. Access would only be given to an operator prepared to "provide services of specified frequency and standard."

It is a clever proposal, if a coercive one. The way the continuing argument develops over the next year will be interesting, with the reaction of Mr James Sherwood - whose Sealink group owns 42 per cent of the Steam Packet and who saved it from foundering three years ago - could be most interesting of all.

R W Shakespeare

## LABOUR RELATIONS

## Goodwill no longer enough

THERE ARE 23 trades unions with members on the Isle of Man, all of them based in mainland UK. They range from the big guns, like the Transport and General Workers, which dominates and has a modern headquarters in Douglas, to the minnows.

Industrial relations on the island are officially described as "very good." Although the seamen's stoppages get a high profile, strikes are rare. Picketing, when it takes place at all, is orderly and non-violent. But, amazingly in modern democracy, the island has little by way of industrial relations legislation.

There is no equivalent of the Employment Protection Act, or requirement for unions to ballot before strike action. Protection against unfair dismissal is limited and equal opportunities rest on goodwill.

People on the island therefore felt very vulnerable earlier this year when a build-up of minor disputes culminated in a wave of sympathy strikes which led to the nearest thing to a general strike. It paralysed the island, shutting its port and airport and shaking even the unions with the realisation of the extent of their own power.

It was a shock. Mr Miles Walker, the chief minister, puts it this way: "The way it happened surprised people in

that there was not an adequate presentation by the people who went on strike that might have warned people of the repercussions."

It was all left in the air and we had to wait until the Monday it actually happened to see exactly how it was going to affect the sort of uncertainty disappointed and worried people. But it was an expression of concern by the

island and make recommendations. The process includes widespread consultations, which have included open-door sessions for the public at large in schools, meeting halls and similar such venues around the island.

Mr Len Collinson, the consultant's managing director, is an acknowledged expert in the field. His industrial relations track record includes a

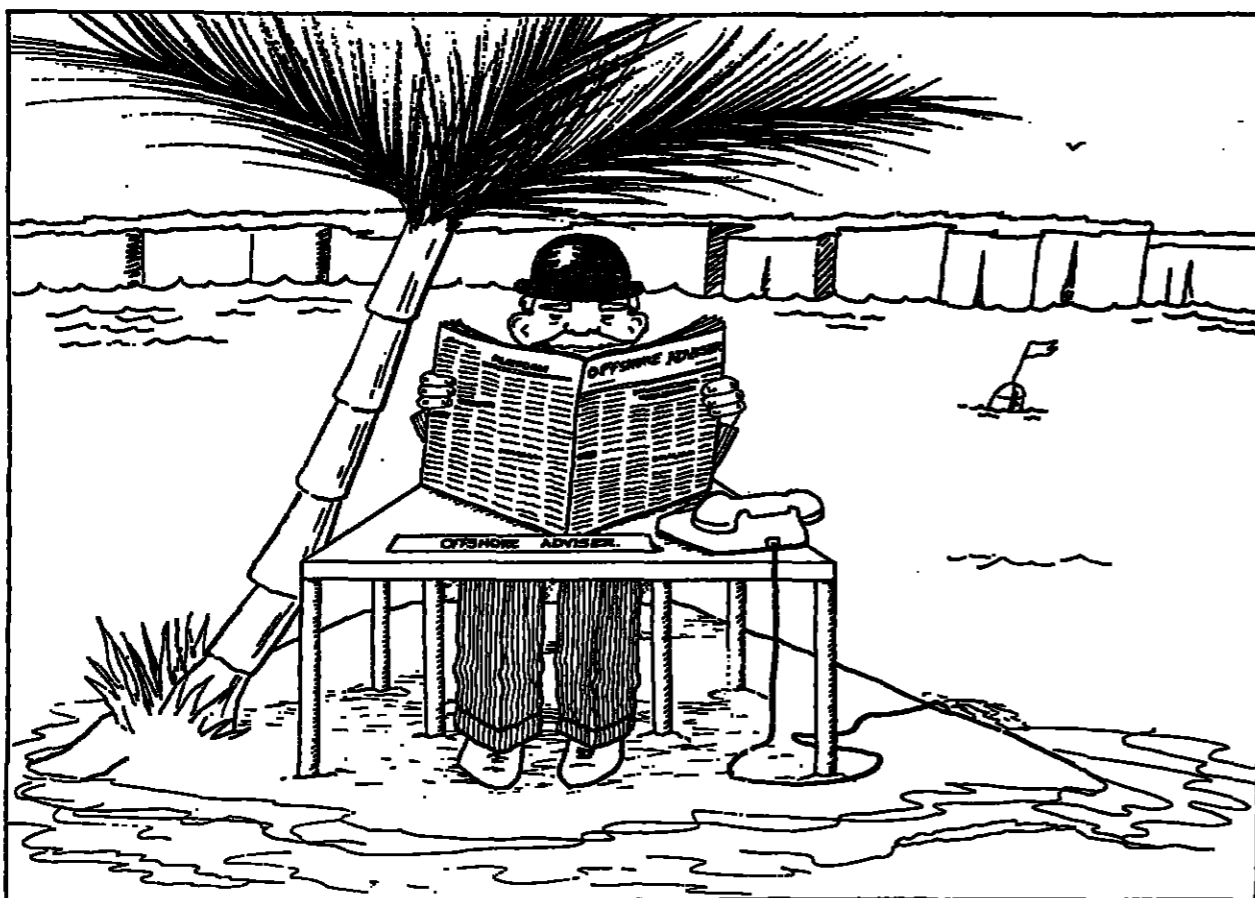
wants to consolidate and exploit its relationships with the European Community, move its tourism up market, establish an international reputation for honest dealing throughout the world and care for its own citizens. At the same time it is determined to preserve its historic independence and autonomy.

All this implies fundamental change, not least in the area of moving the island out of a low wage, and largely unskilled, employment pattern; a community which is already identifying a number of basic inequalities between the haves and the have nots, between opportunity and the absence of it; between the apparent "rights" of some individuals as compared with others and, in some areas, between the sexes.

Mr Walker says: "There is need to bring our law up to date as regard industrial relations and social legislation, but we need to know exactly where we are going. That is why we have taken on Collinson Grant as experts. We expect their report in October and would hope to bring in legislation next session."

"Changing the law will not change things without the right will, but that is what we are trying to generate at the moment."

R W Shakespeare



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## INTERNATIONAL COMPANIES AND FINANCE

## Chrysler's second quarter hit by price cutting

By Anatole Kaletsky in New York

CHRYSLER, the third largest US motor manufacturer, suffered a significant decline in profits in the second quarter as it cut prices to fight for market share against larger US and Japanese rivals.

Chrysler's results confirmed the message from the earlier second quarter reports of Ford and General Motors - that competition in the US car market has continued to intensify despite the lower dollar and the unexpected strength of retail demand.

Unlike the other two US motor manufacturers, Chrysler had no significant overseas operations to insulate its results from tough conditions

at home. It earned \$320m or \$1.45 a share in the second quarter, down 24 per cent from the \$424m or \$1.96 it reported a year earlier.

For the first half of this year, the net profit was \$597m or \$2.69 a share, before allowing for a \$33m provision connected with plant closures. The comparable figure for the first half of 1987 was \$693m.

Mr Lee Iacocca, chairman, made no apology for the declining results, asserting that he "knew we were sacrificing short-term profits to gain market share in this fiercely competitive environment."

Chrysler deliberately maintained the lowest prices in the

industry, while giving rebates that ranked among the highest and committing heavily to marketing programmes, he said. During the second quarter Chrysler sold 42 per cent of its passenger cars for prices lower than last year's.

This effort brought a two-point market share gain in trucks to 20.7 per cent and a half-point advance to 11.3 per cent in the car market. The company's combined car and truck market share increased by 0.9 percentage points to 14.4 per cent. With Ford and GM also performing strongly, Chrysler's gains were mainly at the expense of the importers, who lost 2.8 per cent of the



Lee Iacocca: sacrificing short-term profits US vehicle market in the second quarter.

Net revenues increased by 32 per cent in the second quarter to \$8.45bn. In the first six months of 1988, revenues advanced by 30 per cent to \$16.16bn while retail sales volumes increased by 16 per cent to 1.185m units.

## Kerkorian capital raising plan collapses

By James Suchan in New York

A COMPLEX, controversial plan by Mr Kirk Kerkorian, the West Coast businessman, to reorganise his movie holdings and raise around \$172m in outside capital collapsed yesterday because of disagreements with the main investors. MGM-UA Communications, the loss-making company formed by Mr Kerkorian from the remains of the MGM and United Artists studios and 52 per cent owned by him, said yesterday that it would no longer go ahead with the plan to split the company into two and sell 25 per cent of MGM for \$100m to two Hollywood producers backed by Mr Bert Sugarman, a Beverly Hills entrepreneur.

MGM-UA stock, which has traded as high as \$19 this year, tumbled \$14 to \$11½ in early trading yesterday.

The deal, which was announced on July 11, was part of a rights issue which would have raised a further \$72m from the minority public shareholders of MGM-UA but left Mr Kerkorian with majority stakes in both studios.

Some observers on Wall Street and in Hollywood were baffled by the deal and felt Mr Sugarman and the producers, Mr Peter Guber and Mr Jon Peters, were paying too much for their share of MGM.

Mr Stephen Silber, a close associate of the reclusive Mr Kerkorian and chairman of MGM-UA, said there were "extensive discussions and negotiations over the past two weeks in an effort to agree the terms of the proposed transaction. Unfortunately, we were unable to reach a settlement."

Walt Disney, the film-production and theme-park company which is enjoying a powerful revival of its fortunes, yesterday reported its highest quarterly earnings and revenues.

The Burbank, California company, which has seen earnings rise steadily since a management shuffle in 1984, said that net income in its third quarter to June rose 35 per cent from continuing operations to \$165m or \$1.20 a share. Revenues were up 22 per cent to \$915.7m.

At the nine-month stage, Disney's earnings from continuing operations were 37 per cent ahead at \$385.6m or \$2.51 a share on a 14 per cent increase to \$2.42bn. Revenues were 14 per cent higher at \$2.42bn.

The best performance came from Disney's revived film business, where Three Men and a Cradle and Good Morning, Vietnam - which have grossed some \$239m - contributed strongly to the quarter's results. Operating income from films and cable in the June quarter rose 133 per cent to \$47.9m on a 46 per cent rise in revenues to \$239.6m.

In the larger theme parks business, which includes Disneyland in California and Walt Disney World in Florida, operating income in the quarter was up just 1 per cent to \$190.4m despite a 12 per cent better revenues at \$599.9m. The company said attendance was down on the high levels of 1987.

Disney's consumer products business, which markets records and books, saw operating income rise 36 per cent to \$33.0m on a 43 per cent jump in revenues to \$56.15m.

## Managers in Rockwell unit buyout

By Charles Batchelor

SEVEN SENIOR managers at Rimoldi, an Italian manufacturer of industrial sewing machines, have staged a \$116m buyout of their company from Rockwell International, the US aerospace, electronics and automotive group in what is believed to be Italy's largest management buyout.

Rimoldi is based in Oleggia, near Milan and has distribution and assembly operations in Britain, France, Germany, the US and Brazil. The company expects to make a pre-tax profit of £25m (\$20m) on turnover of £200m in the year which ends in September. It employs 1,285 people of whom more than 1,000 are in Italy.

The buyout team is headed by Mr Nicola Canziani, managing director, and Mr Alfonso Ostinelli, general manager. The deal was arranged by the Milan office of Citicorp, the US bank, with loans provided by Citibank and mezzanine finance - high-yielding loan finance - arranged by Citicorp in London.

The deal comprises \$70m of loans and working capital, \$36m of mezzanine finance, and \$20m of equity all provided by Citicorp/Citibank. Citicorp is now syndicating all three layers of the finance for the deal among other investors

## Interco shares soar after \$2.31bn takeover offer

By James Suchan in New York

INTERCO, the St Louis-based consumer products company which is America's largest men's shoe and furniture maker, faces the prospect of takeover after yesterday's \$2.31bn offer from a group of investors.

Stock in Interco, a \$3.3bn sales company that sells clothing, hardware and furniture, soared \$8 to \$27½ in heavy trading on Wall Street in response to the announcement of a \$2.31bn offer from City Capital Associates, Interco said it would study the offer.

City Capital, an investment

partnership, also said yesterday in a statutory filing that it had spent \$158,000 on buying 8.7 per cent of Interco's stock.

Analysts believe yesterday that Interco, under Mr Harvey Salligman, chairman, would probably resist takeover. They also said that the \$2.31bn offer was too low for the company, which has performed sluggishly in recent years but still enjoyed net income of \$145.6m on sales of \$3.84bn last year.

"This is a valuable company, a valuable commodity," said Mr Robert Buchanan, an ana-

lyst at the local St Louis brokerage, A. G. Edwards. "They have some excellent brand names."

The company's main businesses, making and selling furniture through such chains as Ethan Allen, and its large shoe business, including the Florsheim and Converse brands, are doing well, Mr Buchanan said.

But in common with the rest of the clothing industry, Interco has been hurt by a fall in demand for women's fashion. The company also operates 200 general stores selling housewares and do-it-yourself goods.

## DEC advances 6% to \$401m

By Our New York Staff

DIGITAL Equipment (DEC), the world's leading manufacturer of mini-computers and one of the most widely-held institutional investments on Wall Street, managed a small improvement in its profits during the latest quarter, after the flat results it reported three months ago.

DEC net earnings for the three months ended July 2 were \$401m or \$3.08 a share. This was 6 per cent higher than the \$379m or \$2.85 the company made a year earlier, in the three months to March 26, DEC made \$305m, a mar-

ginal reduction on its \$308m profit in the March quarter of 1987.

For the 12 months to July 2, which was the end of DEC's fiscal year, the company made \$1.81bn or \$9.90 a share, a 15 per cent improvement on 1987.

A year ago, when DEC earnings were growing at an annual rate of 77 per cent, the company was one of the most enthusiastically promoted glamour stocks on Wall Street. Its share price, which yesterday closed \$124½ down at \$102½, peaked at \$199½ shortly before last autumn's stock market

crash.

The latest quarter's results were announced after the market closed last night. The mild improvement in profits seemed unlikely to lift investors' spirits, since several analysts had forecast somewhat better results.

Despite the relatively lacklustre earnings performance, there has been no sign of a correction in the company's formidable sales growth or its rate of technological innovation. In the latest quarter DEC revenues increased by 25 per cent to \$2.24bn.

## US utilities in \$2.3bn merger

By Our New York Staff

SOUTHERN California Edison, the main electric utility serving the Los Angeles area, has proposed a \$2.3bn merger with San Diego Gas & Electric, a takeover which would create the largest privately-owned utility company in the US.

The offer appeared to undercut an earlier merger proposal made to San Diego Gas by Tucson Electric Power in Arizona. In either case, the mergers would be effected by stock exchanges with no cash consideration involved. Regulatory approval would be required and both bidders have stated that they would only pursue a friendly merger.

Southern California Edison's offer, which was announced on Tuesday night, would exchange 1.15 shares of common stock in SCE&G, a publicly-traded holding company, for every share of San Diego Gas. SCE&G said the issue of new shares would increase its outstanding equity by about 29 per cent.

A combination between SCE and San Diego would create a company with revenues of around \$6.7bn, 4.7m customers and 78 gigawatts of electric generating power. It would be the largest in a series of utility mergers as America's highly fragmented utility

industry adapts to abrupt changes in generating costs, demographic movements and energy demand.

San Diego Gas, serving one of the fastest growing areas of the US, has found itself chronically short of generating capacity in recent years and has charged the fifth highest rates in the country to pay for power bought in from other utilities. Both SCE and Tucson Electric currently have surplus capacity. Tucson expects to have an even bigger surplus by the early 1990s, because of new capacity about to come on stream.

## Cash-rich Placer Dome goes hunting for mining bargains

David Owen on the Canadian gold producer's aims

Placer Dome, the world's largest gold producer outside South Africa and the Soviet Union, is scouring the globe for promising mineral deposits in which to invest.

But the Canadian company, formed a year ago by the amalgamation of Placer Development, Dome Mines and Campbell Red Lake Mines, will not plough money into South Africa and is unlikely to buy an operating mine, unless it is undervalued. "We would rather buy bullion than a gold mine at full value," says Mr John Walton, president and chief executive.

The group boasts a cash hoard of more than \$380m (US\$466m) and is virtually debt-free. Its already exceptional balance sheet was strengthened further by last month's \$380m sale of its 24.7 per cent stake in Falconbridge, the Toronto-based nickel, zinc and copper producer.

But Mr Walton made clear that the company's spare money was not burning a hole in its pocket. "When you are underleveraged, you feel tremendous pressure to reinvest and may make decisions you wouldn't have made other-

wise," he said. "A cash kitty is important; mining is very opportunistic."

Since its formation in August 1987, Placer Dome has established itself as a knowledgeable and hard-nosed mining company with a reputation for shepherding low-cost mineral deposits successfully overseas.

"Combining the North American cash flow of the Dome group with Placer Development's expertise internationally has formed a very strong vehicle," Mr Walton says.

The company is embarking on a period of rapid expansion. The development of three new mines - in Papua New Guinea, Australia and Canada - will raise its gold production by a projected 68 per cent from 781,000 oz in 1987 to 1.3m oz in 1990.

The new mines will also reduce Placer Dome's average production costs, which have edged up to around US\$250 an oz of gold, in line with the Canadian dollar's sustained buoyancy.

In the two-month commissioning period and its first year of operations, the Misima property in Papua New Guinea is expected to yield some 400,000

oz of gold at a projected cash cost of just US\$100 an oz. Costs at the \$333m Big Bell open pit project near Perth are estimated at under US\$200.

Corporate assets include both the Endako molybdenum mine - at C\$2 a lb bid by Mr Walton - as the world's lowest cost producer of this steel additive - and 34 per cent of the vast Real de Angeles silver mine in Mexico. This property is so viable that, on occasion, the proceeds from by-product sales alone cover all production costs.

Perhaps the company's one potential weak link is its 68 per cent-owned Gibraltar copper mine in British Columbia. According to Mr Walton, this property needs copper prices of more than 75 cents a lb in order satisfactorily to pay its way. Even so, the operation was profitable in 1987, boasting earnings of C\$13.5m on C\$71.2m of sales.

The group is widely expected sooner or later to sell its North American oil and gas operations, which had earnings last year of C\$24.5m on turnover of C\$99.7m. "We consider these as investments - as we did the Falconbridge stake," says Mr Walton.

## Canadian mines surge ahead

By David Owen in Toronto

TWO MAJOR Canadian mining houses report strong quarterly earnings spurred by the sustained improvement of various metals markets.

Rio Algom, the Toronto-based subsidiary of Britain's RTZ, reported second-quarter net income of C\$33.7m (US\$42.8m) or 75 cents a share compared with profits of C\$22m or 50 cents a year ago. Revenues rose sharply to C\$511m from C\$365.1m in 1987.

Half-year earnings totalled C\$60.1m or C\$1.26 a share on revenues of C\$975.5m, against C\$38.2m or 86 cents on revenues of C\$768.5m last time.

The improvement was due to higher earnings from the partly-held Lornox copper operation, and the group's steel manufacturing, metals distribution and potash units.

Uranium earnings declined because of lower production and adverse currency fluctua-

tions, while the group's Nov. Scotia tin mining operations reported a loss for the fourth month since March 1 due to depressed world tin prices.

Vancouver-based Teck Corporation, in which West Germany's Metallgesellschaft holds a minority interest, also improved third-quarter earnings to C\$30.9m or 26 cents a share from C\$28.5m or 21 cents in 1987. Revenues rose 15 per cent to C\$460m from C\$402m.

## BCE registers strong first-half growth

By Robert Gibbons in Montreal

BCE, Canada's largest holding company, recorded strong second-quarter earnings following higher contributions from its telephone services and equipment subsidiaries and sharply lower preferred stock dividends.

Second-quarter net was C\$286m (US\$237m) or C\$1 a

share, up from C\$254m or 91 cents a year earlier, on revenues of C\$3.79bn against C\$3.78bn. Bell Canada, the regulated telephone utility, earned C\$190m, up from C\$171m. Its results are consolidated with BCE.

BCE's first-half earnings were C\$539m or C\$1.89 a share,

up from C\$502m or C\$1.81, on revenues of C\$7.26bn against C\$7.26bn. Bell Canada's first-half earnings were C\$391m against C\$349m. Northern Telecom contributed C\$52m in the second quarter, against C\$45m, and C\$48m in the first half, unchanged from a year earlier.

BCE expects growth to continue in the second half.

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## INTERNATIONAL COMPANIES AND FINANCE

## Maxwell bid delays Suez venture

By Paul Belts in Paris

COMPAGNIE Financière de Suez, the privatised French financial group, and Mr Robert Maxwell are still negotiating a joint communications venture despite Mr Maxwell's \$2.3bn bid for Macmillan, the US publishing concern.

But the US bid has seriously complicated the talks aimed at forming a joint communications venture between the UK media entrepreneur and Société Générale de Belgique, (La Générale), the Belgian conglomerate controlled by Suez after an epic battle against Mr Carlo De Benedetti earlier this year.

Suez also acknowledges the negotiations with Mr Maxwell have been further complicated by the noisy controversy that has erupted in France over changes in the shareholding structure of Havas, the privatised media and advertising group in which both Mr Maxwell and SGB own a 5 per cent stake.

Mr Maxwell and La Générale announced last month they were studying setting up a communications joint venture which would involve Mr Maxwell acquiring a sizeable

minority stake in the Belgian group and the pooling together in the new joint venture of communications assets held by the two parties.

For Suez, the attraction was that the joint venture would consolidate and expand La Générale's activities in communications while bringing into the Belgian group a major friendly shareholder.

Suez and its Belgian partners control about 80 per cent of La Générale. Suez would like to reduce this stake to about 51 per cent in coming months and eventually even more.

The share sales would also help the French group wipe out a FF2bn (\$319m) short-term debt risk due to the acquisition of part of Mr De Benedetti's stake in La Générale. The Italian financier retains a 16 per cent stake in the Belgian group.

Although Suez continues to be interested in a close association between La Générale and Mr Maxwell, it fears the deal risks moving to the backburner as a result of the Macmillan bid.

Moreover, the proposed Max-

well association with La Générale has assumed a controversial political dimension in France with the behind the scenes manoeuvres to change the capital structure of the French privatised Havas media group.

Mr Maxwell acquired a 5 per cent stake in Havas, France's leading advertising and media group, before starting negotiations with Suez and La Générale.

The French side claims there was never any question of using a La Générale-Maxwell association in the communications field as a platform to enable Mr Maxwell to increase his influence at Havas since the Belgian group also owns a 5 per cent stake in the privatised French company.

But there was immediately a widespread perception in France that Mr Maxwell was attempting through the deal with La Générale to increase his stake in Havas and that he was being actively encouraged by the new French Socialist Government as part of its efforts to break-up the core shareholding structures of

groups privatised by the previous right-wing government of Mr Jacques Chirac.

However, Mr Maxwell's manoeuvres appear also to have worried influential personalities close to the Socialist camp, including Mr Andre Rousselet, a former chairman of Havas and current head of the highly successful French pay television network Canal Plus.

Havas is a key shareholder of Canal Plus with a 25 per cent stake in the pay television network. Mr Rousselet, a close friend of President François Mitterrand, was clearly worried by Mr Maxwell's foray into Havas, openly voicing his objections and suggesting that Canal Plus itself was considering acquiring a stake in Havas.

Suez has been at pains to emphasise that Mr Maxwell's manoeuvres around Havas have nothing to do with the French group's interest in associating Mr Maxwell with La Générale in a major European communications venture.

The French financial group claims that a Maxwell-La Générale association in the communications business remains attractive to both parties since it would give Mr Maxwell a significant European platform and reinforce La Générale's ambitions in the communications sector.

For the time being at least the negotiations between Mr Maxwell and Suez seem to have little chance of succeeding. Suez appears to have no intention or interest in helping support Mr Maxwell's US takeover bid for Macmillan and the last thing it wants is to be caught up in the current political maelstrom over Havas.

## A strategy to shed minority shareholdings

COMPAGNIE Financière de Suez has sold a 6 per cent stake in Beghin-Say, the French sugar group controlled by Ferruzzi of Italy, for about FF300m (\$48m), writes Our Paris Staff.

The sale is part of Suez' strategy to shed minority shareholdings in companies which the French group considers as passive investments. Suez recently shed its stake in

the Delmas-Vieljeux shipping group for about FF200m and a stake in Optigrup, a distribution company, for FF60m.

Suez has also launched a policy of acquiring stakes in groups in which it plans to play an active investment role.

This has led Suez to acquire for FF150m a 5 per cent stake in a holding company which will have a prominent role in the Elders IXL group of Aus-

tralia.

Suez also recently acquired a 10 per cent stake in the French Exor group.

The broad strategy of Suez is to divide its FF200m share portfolio into two sectors with FF150m worth of shareholdings in different companies regarded as long-term stable investments and the other FF50m of holdings rotating on a five-year basis.

## Benelux banks combine profits

By Our Financial Staff

GENERALE Bank of Belgium and Amsterdam-Rotterdam Bank of the Netherlands yesterday published combined 1987 results expressed in European currency units marking a further step towards a planned integration.

The results showed that the two banks' combined consolidated net profit in 1987 amounted to Ecu\$54m (\$319m). The two banks forged an alliance in February with the aim of forming a multinational integrated banking group within three years. They took

initial stakes of 9.9 per cent in each other and may raise these to 25 per cent.

The combined balance sheet total stood at Ecu12.2bn on 31 December, 1987, ranking the alliance seventh among European banks.

Based on clients' deposits of Ecu\$9bn and banks' deposits of Ecu\$4bn, the alliance was Europe's sixth largest bank, the statement said. Combined capital and reserves amounted to Ecu\$3.3bn and subordinated loans to Ecu1.7bn.

Loans to the private sector

stood at Ecu\$7.5bn, those to the public sector at Ecu\$2bn and placements with other banks at Ecu\$34bn. In March, each bank announced its own 1987 results.

Generale reported a consolidated net profit of BFR6.4bn (\$165m), up from BFR5.9bn in 1986. Amro posted a net profit of F1 479m compared with F1 414m in 1986.

The Ecu is a notional EC currency based on a basket of 10 member currencies weighted according to each member's share of EC output.

## BBC Brown Boveri to seek acquisitions

By Our Financial Staff

BBC BROWN BOVERI, the Swiss co-owner with Sweden's Asea of the combined Asea Brown Boveri (ABB) engineering and machinery group, disclosed on Wednesday that it is seeking acquisitions.

The Swiss parent, which merged its industrial operations with those of Asea of January 1, said in its company newsletter that it plans to use the dividend income from the ABB operations to acquire stakes in companies.

Mr Fritz Leutwiler, BBC chairman, wrote in the newsletter that BBC would remain a financial holding company but may acquire holdings, even majority stakes, in other concerns.

He said the services sector would be BBC's first choice, and BBC could take equity positions in service companies that ABB might divest in the future.

## Cigahotels reports profits of L6bn

CIGAHOTELS, the Milan-based hotels group, yesterday reported flat profits of L6bn (\$4.98m) for the six months ended April 30, unchanged from the first half of the previous business year, writes Our Financial Staff.

Sales amounted to L114.4bn, compared with L102.9bn. Investments totalled L14.2bn, up from L5bn. Cigahotels Spa said its board approved a L120.5bn convertible bond issue.

## Israel Chemicals to be privatised

By Our Jerusalem Correspondent

ISRAEL Chemicals, the country's biggest state-owned industrial concern, is to be privatised.

The Government has approved plans to sell 50 per cent of the shares to a single unidentified private investor. Another 20 per cent will be offered to the public on local and overseas stock exchanges. The state will retain a 26 per cent holding while the remaining 4 per cent will be allocated to company employees.

Turnover of Israel Chemicals is expected to be \$1bn this year. Estimates put the value of half the company, the proportion for which the Government is seeking a single investor, at between \$400m and \$600m.

In a similar package earlier this summer the Government sold the Paz oil company, which accounts for 45 per cent of the local fuel market, to Mr Jack Liberman, an Australian businessman, for \$50m.

● Beged Or, Israel's flagship high-fashion leatherwear manufacturer, is to be given free to its 120 workers. Mr Leslie Fulop, its founder, has agreed to take charge of management and marketing. The flamboyant Hungarian-born Mr Fulop lost control of Beged Or seven years ago when it was put in the hands of a receiver.

Polgat, Israel's biggest textiles group, which acquired it in 1981, closed the company last month when its accumulated losses were said to have reached \$15m (\$3.1m). The workers will receive money from a fund set up by the Government and the Histadrut trade union federation to enable them to take over the company.

## BHF lifts first half income

By Our Financial Staff

BERLINER HANDELS-und Frankfurter Bank (BHF), the West German bank, yesterday reported a rise in first half per cent-company partial operating profits from DM70m (\$37.8m) in the 1987 period to DM77m.

The bank said both group and parent business volume was boosted by its foreign activities in the first 1988 half, especially a newly-opened London branch.

Group business volume rose to DM35.3bn on June 30, 1988 from DM33.7bn at the end of last year. The corresponding figure for the parent bank increased to DM21.4bn from DM19.9bn. BHF provided no group earnings figures.

The rise in the dollar also helped the expansion of business, BHF said without providing further details. But relative stability in the European Monetary System and the dollar led to falling demand for hedging instruments.

## Republic New York Corporation

U.S. \$150,000,000

Puttable Capital Notes

For the six month period ending June 30, 1988, the Company's net income was \$4,542,442, or \$0.0303 per share on a basic basis. The Company's net income for the six month period ending June 30, 1987, was \$3,450,000, or \$0.0230 per share on a basic basis.

Bankers Trust Company, London Agent Bank

This announcement appears as a matter of record only.

May, 1988

## INVESTCORP

Arabian Investment Banking Corporation (Investcorp) E.C.

U.S. \$120,000,000

Multiple Option Facility

Arab Banking Corporation (ABC)

Bankers Trust International Limited

Chase Investment Bank

Deutsche Bank AG

Kuwait Foreign Trading Contracting &amp; Investment Co. (S.A.K.)

National Westminster Bank Group

Lead Managers

Bank of Tokyo Capital Markets Group

B.S.F.E. - Banque de la Societe Financiere Europeenne

Credit Suisse

Girozentrale und Bank der österreichischen Sparkassen Aktiengesellschaft

Manufacturers Hanover Limited

Société Générale

Managers

Arab Bank Limited

The Bank of Kuwait and the Middle East, KSC

The Daiwa Bank, Limited

The Gulf Bank K.S.C.

Indosuez Group

Riyad Bank

Co-Managers

Berliner Bank AG

Kuwait Real Estate Bank K.S.C.

Funds provided by

Arab Banking Corporation (ABC)

The Bank of Tokyo, Ltd.

Bankers Trust Company

B.S.F.E. - Banque de la Societe Financiere Europeenne

The Chase Manhattan Bank, N.A.

Credit Suisse

Deutsche Bank AG

Girozentrale und Bank der österreichischen Sparkassen Aktiengesellschaft

The Gulf Bank K.S.C.

Kuwait Foreign Trading Contracting &amp; Investment Co. (S.A.K.)

Manufacturers Hanover Trust Company

National Westminster Bank Group

Société Générale

Arab Bank Limited - OBU

The Bank of Kuwait and the Middle East, KSC

The Daiwa Bank, Limited

Riyad Bank

Al Bank Al Saudi Al Fransi

Berliner Bank AG

Kuwait Real Estate Bank K.S.C.

Alahli Bank of Kuwait K.S.C.

Arab International Bank, Bahrain

Credit du Nord

Lloyds Bank Plc

Melita Bank International Ltd.

The Mitsubishi Bank, Limited

Banque Indosuez (OBU)

Tender Panel Members

Al Bank Al Saudi Al Fransi

Arab Banking Corporation (ABC)

Arab International Bank, Bahrain

The Bank of Kuwait and the Middle East, KSC

Bank of Tokyo Capital Markets Group

Bankers Trust International Limited

Banque Indosuez (OBU)

B.S.F.E. - Banque de la Societe Financiere Europeenne

Berliner Bank AG

Chase Investment Bank

Credit du Nord

Credit Suisse

The Daiwa Bank, Limited

Deutsche Bank AG

Girozentrale und Bank der österreichischen Sparkassen Aktiengesellschaft

The Gulf Bank K.S.C.

Kuwait Foreign Trading Contracting &amp; Investment Co. (S.A.K.)

Kuwait Real Estate Bank K.S.C.

Lloyds Bank Plc

Manufacturers Hanover Limited

Riyad Bank

Société Générale

The Mitsubishi Bank, Limited

National Westminster Bank Group

Tender Panel Agent

Manufacturers Hanover Limited

Issuing &amp; Paying Agent

Bankers Trust Company

Facility Agent



Ente Nazionale per l'Energia Elettrica

U.S. \$300,000,000

Floating Rate Notes Due 2005

Unconditionally guaranteed as to payment of principal and interest by

The Republic of Italy

In accordance with the provisions of the Notes, notice is hereby given that the Rate of Interest has been fixed at 8.36675% for the Interest Determination Period 29th July, 1988 to 31st August, 1988. Interest accrued for this Determination Period and payable 30th November, 1988 will amount to U.S.\$76.71 per U.S.\$100,000 Note and U.S.\$1,917.84 per U.S.\$250,000 Note.

Agent Bank:

Morgan Guaranty Trust Company of New York  
London

U.S. \$100,000,000

Floating Rate Participation Certificates Due 1992

issued by Morgan Guaranty GmbH for the purpose of making a loan to

Istituto per lo Sviluppo Economico dell'Italia Meridionale

(a statutory body of the Republic of Italy incorporated under Law No. 298 of April 11, 1953)

In accordance with the terms and conditions of the Certificates, the rate of interest for the Interest Determination Period 29th July, 1988 to 31st August, 1988 has been fixed at 8.36675%. Interest accrued for the above period and payable on 31st January, 1989 will amount to US\$79.06 per US\$100,000 Certificate.

Agent  
Morgan Guaranty Trust Company of New York  
London Branch

All of these securities having been sold, this announcement appears as a matter of record only.

July, 1988

\$300,000,000

Société Générale,  
New York Branch

9 7/8% Subordinated Notes Due July 15, 2003

Shearson Lehman Hutton Inc.

Goldman, Sachs &amp; Co.

The First Boston Corporation

Merrill Lynch Capital Markets

Morgan Stanley &amp; Co.

PaineWebber Incorporated

Salomon Brothers Inc

Sogen Securities Corporation

compagnie bancaire

¥10,000,000,000

Floating Rate Notes due 1995

In accordance with the Terms and Conditions of the Notes, notice is hereby given that for the Interest Period from 3rd August, 1988 to 3rd February, 1989:

- The Rate of Interest for the Notes will be 4.95% per annum, and
- The Interest Amount will be ¥349,534 per ¥10,000,000 Note.

Agent Bank

The Long-Term Credit Bank of Japan, Limited  
Tokyo

CO-OPERATIVE BANK P.L.C.

(Incorporated in England under the Companies Acts 1948 to 1980 with registered number 590937)

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Your cheque or bankers' draft must be drawn in sterling on an account at a bank branch in the United Kingdom, the Channel Islands or the Isle of Man and must bear a United Kingdom bank sort code number in the top right hand corner. Payments by cheque are only effective when cleared funds are actually received. The Receiving Bank is not obliged to re-present a cheque which is returned unpaid on first presentation.

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Investment Services Department  
78-80 Cornhill  
London EC3V 3NJ

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## Gordon Capital Corporation

is pleased to announce

the opening of a representative office in

Paris.

We have appointed the following

Joint Managers: Jean-Yves Le Floch  
Jean-Louis Clement

Assistants: Jeanne Le Gouis  
Brenda Gaynor

g

10 rue de la Paix Tel 4927 08 08  
75002 Paris, France Fax 4260 59 36

## Demand boosts Asahi Glass

By Ian Rodger in Tokyo

PRE-TAX profits of Asahi Glass, the leading Japanese glass maker, rose 31 per cent to ¥85.3bn (¥277.4m) in the first half to June.

The company said the increase resulted from an improvement in most of its major operations in Japan, against a background of strong consumer and public spending.

Overall sales rose 18.5 per cent to ¥389.3bn.

Glass and construction materials sales, which account for 62.6 per cent of the total, rose 18.5 per cent to ¥204.7bn.

Sales of float glass were brisk as were sales of thermal glass, sashes and glass fibre reinforced cement.

Glass bulb operations improved, mainly because of rising demand for large screen television sets.

Sales of chemicals, 36.9 per cent of total sales, rose 14.8 per cent to ¥143.7bn.

Urethane, vinyl chloride and soda products were all in strong demand, while sales of fine chemicals and exports of plants and technology rose.

Net income was up 24.3 per cent to ¥19.1bn. The interim dividend was unchanged at ¥4 per share. Asahi Glass forecasts that its pre-tax profits for the full year will reach ¥76bn, up 23 per cent.

## INTERNATIONAL COMPANIES AND FINANCE

## Nissan to link up world production

By Ian Rodger in Tokyo and Kevin Done in London

NISSAN MOTOR is to become the first Japanese automotive group to integrate its development and production centres in Japan, Europe and the US with a global satellite-linked computer aided design (CAD) network in order to speed up vehicle development and production overseas.

The move follows similar steps already taken by General Motors and Ford of the US.

At the same time, Nissan said that its planned European design facility, the Nissan European Technology Centre, would become operational next month. It will be located temporarily at Nissan's assembly plant at Sunderland in north-east England, pending the selection of a permanent site in the UK.

The CAD network and the setting up of the NECT mark an important new stage in Nissan's global strategy, which has concentrated hitherto on the development of a worldwide sales organisation fol-

lowed by the setting up of local production facilities.

The company already has 24 assembly or manufacturing companies in 21 countries with its major overseas production bases in the US, Mexico, the UK, Spain and Australia.

Nissan said the development of the CAD network would strengthen its capability for local vehicle development and design to enable it to tailor vehicles to the demands of local markets by accelerating the transmission of data between its centres in the US, Europe and Japan.

Nissan said yesterday the lead time from the start of a development project to local production could be "dramatically reduced" by eliminating the time wasted by mailing documents between continents.

The transmission time for a typical CAD drawing from Tokyo to the US or the UK would be cut from more than a day to less than 10 minutes.

Overseas engineers would have on-line access to the

supercomputer at the Nissan technical centre in Aistup. Initially the CAD network will link Nissan's European Technology Centre in the UK and Nissan Research and Development in Michigan in the US.

At a later stage, branch lines will extend the network to the company's European engineering offices in Brussels, Nissan Motor Iberica, its Spanish commercial vehicles operation, as well as to Nissan Design International in California, the US car and light truck assembly plant at Smyrna, Tennessee.

The group's hot weather test track in Arizona and its Mexican production facilities at Cuernavaca.

Nissan said that the new European design facility in the UK (NECT) would have a workforce of around 200 within two years.

Its main responsibility would be original body and trim design for Nissan vehicles produced in Europe, and it is

planned to draw extensively on the resources of European engineering companies and components suppliers. Its first major project will be the local development of the Micra-class car, which is scheduled to go into production at Sunderland in 1992.

The NECT will also provide technical support to increase the local content of cars produced in the UK and commercial vehicles produced in Spain and will collect information for use in Nissan's medium-term and long-term product planning.

Nissan has already taken parallel steps in the US to reorganise its research and development facilities to allow the local development of future cars and trucks for the US market.

The research centre in Michigan is to take on the design of unique parts for a new two-door model of the Sentra (sold as the Sunny in Japan and Europe), being planned for the North American market.

## Big share issue at Sumitomo

By Our Financial Staff

SUMITOMO BANK yesterday became the latest of Japan's large commercial banking groups to unveil a large-scale share issue in order to bring its capital adequacy in line with international standards.

It is to issue 500 shares by early September to raise some ¥160m (\$1.2m). This will take it just over the 8 per cent capital to asset ratio laid down by the Bank for International Settlements for implementation by 1993.

Sumitomo Bank yesterday reported consolidated net profits up more than 2½ times for the year to March to reach ¥141.6bn compared with ¥53.1bn.

However, this was not enough to keep the top spot in the Japanese "city" bank profit league which, on a parent company basis alone, it has traditionally enjoyed. The rival Dai-ichi Kangyo Bank, announcing for the first-time figures for its group of companies as a whole, gave net earnings as ¥151.6bn.

DKB revenues were ¥2,538bn against ¥2,579bn at Sumitomo, where the rise on the year was 27.5 per cent.

● Mitsubishi Bank is to merge with Sumitomo Bank of California, its own West Coast operation, with Bank of California, acquired in 1984.

## Royal Dutch/Shell to buy CSR coal interests

By Bruce Jacques in Sydney and Our Financial Staff

CSR, the Australian resources group, yesterday agreed to sell nearly all the remaining interests of its coal division, once among Australia's biggest, to Royal Dutch/Shell and the local Coal and Allied Industries for A\$268m (US\$215m).

The Calide, Drayton and Leighton coal mines, which have combined annual production of about 7m tonnes, will go to Shell Australia for A\$230m. The purchase, which includes other exploration deposits, marks an upgrading of Shell's commitment to Australian coal.

The company already partners CSR at Drayton, a steaming coal mine in the New South Wales Hunter Valley area, and has other coal interests in both NSW and Queensland.

CSR is to sell its 32.6 per cent interest in Port Waratah Coal Services, which manages one of Australia's largest coal loading terminals at Newcastle, to Coal and Allied Industries for A\$36m.

The sales bring CSR's coal asset sell-off to around A\$450m, taking it another big step closer to its goal of concentrating on the sugar and building products industries.

In another significant disposal, CSR sold yesterday that

it is to sell Aquila Steel, a leading producer of steel reinforcing materials and wire fencing, to Broken Hill Proprietary (BHP), Australia's largest company.

Although no price was disclosed, industry analysts estimated Aquila's worth at A\$60m to A\$70m.

Aquila, acquired as part of CSR's takeover of Pioneer Sugar Mills a year ago, adds downstream activities to BHP's position as the country's dominant steelmaker.

In all, CSR has unloaded well over A\$2bn worth of assets in the past two years, representing probably the biggest corporate metamorphosis in Australia's history.

By far the biggest sale was the company's Delphi Petroleum division to Esso Australia for about A\$1bn. In total, CSR has recently shed the South Blackwater mine in Queensland for some A\$58m and the Colliery domestic steaming coal complex in Western Australia for about A\$130m.

The sale to Shell also includes CSR's interest in the Mount Thorley coal loader and prime coal exploitation areas including the Maroon brown coal deposit in South Australia and the Rosevale brown coal deposit in Tasmania.

## Arianespace may go public

By Our Financial Staff

ARIANESPACE, the French company which builds, operates and launches Western Europe's Ariane space rockets, said it will propose floating shares on the French stock exchange next year.

Mr Frederic d'Allest, company chairman, gave no precise details in the annual report but said 1989 would be the time to make the proposal. The flotation decision would be taken after board studies are completed in November.

Mr d'Allest said Arianespace had more than 50 per cent of the world market for commercial satellite launches. Arianespace, set up in 1982 by the 12-nation European Space Agency, had a 1987 operating profit of FF7602.5m (\$49m), up from FF7208.7m in 1986.

Turnover dropped slightly to FF940.5m in 1987 as a result of an 18-month freeze on launches after a rocket failure in 1986. Launches were resumed last September.

Ariane this year launched four rockets successfully, all carrying commercial payloads.

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**Bank of Montreal**  
(A Canadian Chartered Bank)

U.S. \$250,000,000  
Floating Rate Debentures,  
Series 9, due 1996  
(Subordinated to deposits and other liabilities)

Notice is hereby given that the Rate of Interest for the three month period 29th July, 1988 to 31st October, 1988 has been fixed at 8½ per cent. The amount payable on 31st October, 1988 will be U.S.\$221.94 against Coupon No. 18.

Morgan Guaranty Trust Company of New York  
London

**NMB BANK**  
Nederlandsche  
Middenstandsbank nv

U.S. \$100,000,000  
Floating Rate Notes Due 1992

In accordance with the provisions of the Notes, notice is hereby given that, for the six month period 29th July, 1988 to 31st January, 1989, the Notes will bear interest at the rate of 8¼ per cent per annum. Coupon No. 7 will therefore be payable on 31st January, 1989, at the rate of US\$11.46354 from Notes of US\$250,000 nominal and US\$458.54 from Notes of US\$10,000 nominal.

S.G. Warburg & Co. Ltd.  
Agent Bank

**The Finnish Paper Mills' Association - Finnmap**

U.S. \$100,000,000  
Floating Rate Notes Due 1995

In accordance with the terms and conditions of the Notes, the rate of interest for the interest period July 29, 1988 to January 31, 1989 has been fixed at 8¼ per annum. Interest payable on January 31, 1989 will be US\$452.08 per Note of US\$10,000.

Agent  
Morgan Guaranty Trust Company of New York  
London Branch

U.S. \$150,000,000  
**CHASE MANHATTAN OVERSEAS BANKING CORPORATION**

FLOATING RATE NOTES DUE 1993

For the six months  
29th July, 1988 to 31st January, 1989

In accordance with the provisions of the Notes, notice is hereby given that the rate of interest has been fixed at 8¼ per cent and that the interest payable on the relevant interest payment date, 31st January, 1989 against Coupon No. 21 will be U.S.\$45.21.

Agent Bank: Morgan Guaranty Trust Company of New York, London

U.S. \$100,000,000  
**FIDELITY FEDERAL**  
SAVINGS AND LOAN ASSOCIATION

Collateralized Floating Rate  
Notes Due 1992

Interest Rate 8½% per annum  
Interest Period 29th July 1988 to 31st October 1988  
Interest Amount per U.S. \$100,000 Note due 31st October 1988 U.S. \$2,219.44

Credit Suisse First Boston Limited  
Agent Bank

Wells Fargo & Company  
U.S. \$200,000,000  
Floating Rate Subordinated Notes due 2000

In accordance with the provisions of the Notes, notice is hereby given that for the interest period 29th July, 1988 to 31st August, 1988 the Notes will carry an interest rate of 8¼% per annum. Interest payable on the relevant interest payment date 31st August, 1988 will amount to US\$75.62 per US\$10,000 Note and US\$378.10 per US\$300,000 Note.

Agent Bank: Morgan Guaranty Trust Company of New York, London

**FLORA 2 LIMITED**  
U.S. \$58,800,000  
Secured Floating Rate Notes Due 1993

In accordance with the terms and conditions of the Notes, notice is hereby given that for the six months period from July 22, 1988 to January 23, 1989, the Notes will carry an interest rate of 8.75 per cent. The coupon amount so calculated will be US\$4,496.53 per Note of US\$100,000 - nominal.

UTCB  
THE LONG-TERM CREDIT BANK OF JAPAN, LTD.  
Agent Bank

U.S. \$400,000,000 GUARANTEED FLOATING RATE SUBORDINATED CAPITAL NOTES DUE OCTOBER 1996  
**CITICORP BANKING CORPORATION**  
(Incorporated in the State of Delaware)  
Unconditionally guaranteed on a subordinated basis by

Notice is hereby given that the Rate of Interest has been fixed at 8.5% and that the interest payable on the relevant interest payment Date October 31, 1988 against Coupon No. 16 in respect of US\$10,000 nominal of the Notes will be US\$221.94.

July 29, 1988, London  
By: Citibank, N.A. (CSSI Dept.), Agent Bank CITIBANK

**CITICORP**  
U.S. \$500,000,000  
Subordinated Floating Rate Notes Due October 28, 2005

Notice is hereby given that the Rate of Interest has been fixed at 8.225% and that the interest payable on the relevant interest payment Date August 31, 1988 against Coupon No. 34 in respect of US\$10,000 nominal of the Notes will be US\$75.40.

July 29, 1988, London  
By: Citibank, N.A. (CSSI Dept.), Agent Bank CITIBANK

**CITICORP BANKING CORPORATION**  
(Incorporated with limited liability in the State of Delaware)  
U.S. \$350,000,000 Floating Rate Notes due July 29, 1991

Notice is hereby given that the Rate of Interest for the period July 29, 1988 to October 31, 1988 has been fixed at 8.45% and that the interest payable on the relevant interest payment Date, October 31, 1988 against Coupon No. 9 in respect of US\$10,000 nominal of the Notes will be US\$220.64.

July 29, 1988, London  
By: Citibank, N.A. (CSSI Dept.), Agent Bank CITIBANK

**BANCO DI ROMA**  
U.S. \$150,000,000  
Floating Rate Depository Receipts due 1992

Notice is hereby given that the Rate of Interest relating to the above issue has been fixed at 8½ per cent for the period 29th July 1988 to 31st August 1988. Interest payable on 31st August 1988 will amount to US\$75.40 per US\$10,000 Note and US\$378.10 per US\$300,000 Note.

Agent Bank: Morgan Guaranty Trust Company of New York, London

**National Australia Bank Limited**  
U.S. \$100,000,000  
Floating Rate Notes due 1997

Notice is hereby given that the Rate of Interest relating to the above issue has been fixed at 8½ per cent for the period 29th July, 1988 to 31st January, 1989.

Interest payable on 31st January, 1989 per US\$10,000 Note will be US\$438.54.

Agent Bank: Morgan Guaranty Trust Company of New York, London

**Security Pacific Corporation**  
Dutch Guilders 250,000,000  
Floating Rate Notes 1986 due 1986

In accordance with the terms and conditions of the Notes, notice is hereby given that for the interest period from July 23, 1988 to January 31, 1989 the Rate of Interest has been fixed at 8½ per cent and that the interest payable on the relevant interest payment Date, January 31, 1989 against Coupon No. 6 in respect of Nig250,000 nominal of the Notes will be Nig1,468.27, and in respect of Nig100,000 nominal of the Notes will be Nig593.54.

Amsterdam-Rotterdam Bank N.V.  
Agent Bank

U.S. \$250,000,000 GUARANTEED FLOATING RATE SUBORDINATED CAPITAL NOTES DUE JANUARY 1997  
**CITICORP BANKING CORPORATION**  
(Incorporated in the State of Delaware)  
Unconditionally guaranteed on a subordinated basis by

Notice is hereby given that the Rate of Interest has been fixed at 8.5% and that the interest payable on the relevant interest payment Date October 31, 1988 against Coupon No. 15 in respect of US\$10,000 nominal of the Notes will be US\$221.94.

July 29, 1988, London  
By: Citibank, N.A. (CSSI Dept.), Agent Bank CITIBANK

**CITICORP**  
U.S. \$350,000,000  
Subordinated Floating Rate Notes Due November 27, 2005

Notice is hereby given that the Rate of Interest has been fixed at 8.225% in respect of the Original Notes and 8.2125% in respect of the Enhancement Notes, and that the interest payable on the relevant interest payment Date August 31, 1988 against Coupon No. 33 in respect of US\$10,000 nominal of the Notes will be US\$75.40 in respect of the Original Notes and US\$76.20 in respect of the Enhancement Notes.

July 29, 1988, London  
By: Citibank, N.A. (CSSI Dept.), Agent Bank CITIBANK

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FINANCIAL TIMES





## UK COMPANY NEWS

## P&amp;O tops cruise market with \$210m buy

By Kevin Brown, Transport Correspondent

PENINSULAR AND Oriental Steam Navigation (P&O) yesterday re-established itself as the world's largest cruise ship operator by buying Sitmar Cruises of the US for \$210m (£131.15m).

Sitmar operates four ships in the quality sector of the North American cruise market, in which P&O operates five ships through its Princess Cruises subsidiary.

In addition, Sitmar has three high-quality ships on order at prices believed to be substantially below the levels now being quoted by shipyards.

With the inclusion of the three SS Canberra, which is operated separately from the Princess fleet, P&O now controls 11 per cent of the world cruise market. P&O's market share should increase to just over 13 per cent by 1991, when the three ships on order will be in service.

The deal means that P&O returns to the top of the cruise shipping league, ahead of Royal Caribbean Cruise Line and Carnival Cruises, which overtook it in terms of both ships and berths in the early 1980s.

Sir Jeffrey Sterling, chairman of P&O, said the group had been studying the fast-growing cruise market for three years. P&O is believed to have had talks with RCL and Holland America Line before agreeing terms with Mr Lester Crown, the main shareholder in Sitmar.

Mr Crown will retain an interest in the merged group through the Vlasov family trust, which has agreed to take \$10m in P&O deferred stock in lieu of cash as part of the consideration for its interests in Sitmar.

Sir Jeffrey declined to forecast the impact of the acquisition on P&O's profits from cruise operations, which were believed to be around £20m last year.

However, he said the group would have £500m invested in cruise shipping by 1991, and pointed out that RCL and Carnival are able to achieve a return on capital of between 25 and 30 per cent.

"In one fell swoop, we have taken out an excellent competitor, and acquired some very good ships as well," Sir Jeffrey said.

Debut in the Caribbean cruise market, which is centred on Miami, Florida, is growing at around 11 per cent a year, compared to growth in cruise ship capacity of between 7 and 8 per cent.

## Marley makes US acquisition

By Andrew Taylor, Construction Correspondent

Marley, the building materials group, has agreed to acquire Webster Brick, a US brick manufacturer.

The purchase price will be worth \$18m (£9.3m) plus the value of the company's stock, which will be agreed when the deal closes. This is expected to be early in August.

Marley has agreed to pay \$8m of the purchase price in cash with the balance in loan notes in five equal annual instalments. Webster manufactures facing bricks in Roanoke and Orange County, Virginia. Marley already carries out brick manufacturing in the US through General Shale Products Corporation.

## Buy-out of clothing side nets £93.5m for Coloroll

By Alice Rawsthorn

COLOROLL, the ambitious home furnishings concern, has sold the cloth and clothing companies it acquired in its bid for the John Crowther Group to a management team for £93.5m.

Coloroll announced its intention of selling the cloth and clothing companies, which are not compatible with its home furnishings activities, when it unveiled its £207m bid for Crowther in April.

Mr Eric Kirby, deputy chairman, said Coloroll had received "a great deal of interest" in the companies. The management team - led by Mr David Suddens, who joined Crowther as head of its clothing division from Courtaulds last autumn - was, however, the only prospective purchaser for all the businesses.

Originally Mr Trevor Barker, former chairman of Crowther,

had planned to mount a rival buy-out. But he withdrew because of the controversy that clouded the bid for Crowther.

Coloroll, which was advised on the sale by Samuel Montagu, expects to raise an additional £13m from the sale of a Swiss carpet tile business, the McCalls paper pattern company in the US, and property.

The disposals should reduce the level of its gearing to between 30 and 40 per cent by the end of its financial year in March.

The Coloroll share price rose by 4p to 185p on the announcement yesterday.

Most of Crowther's clothing companies, which include Speedo swimwear and the WW distribution business, were bought in a flurry of acquisitions between 1985 and 1986.

Together with the original John Crowther cloth mill, they

made pre-tax profits of £11m on turnover of £185m last year.

Mr Suddens said the restructuring of the businesses, which employ 5,000 people, was still incomplete. Moreover, the companies had suffered in recent months "but not disastrously" - because of the uncertainty created by the takeover bid.

His management team has raised an additional £9.5m, from Charterhouse Development Capital which arranged the buy-out, to provide working capital and investment.

Coloroll is retaining a 6 per cent holding, for £1.5m, in the new clothing group.

Mr Suddens has not decided upon a new name. "I do not suppose the City would cry 'whoops' if a company called John Crowther returned to the stock market," he said.

## de Savary buys TV-am stake

By Raymond Snoddy and Nikki Tait

MR PETER de Savary's LandLeisure yesterday acquired nearly 10 per cent of TV-am, the commercial breakfast television station, in a deal worth £11.75m or 180p a share.

Mr Ian Irvine, chairman of TV-am, said yesterday that the board intended to invite Mr de Savary, who is deputy chairman of LandLeisure, to become a director of the TV company.

"He will bring to us an additional dimension of leisure and related experience" and help TV-am meet one of its ambitions of widening the base of its activity, Mr Irvine said.

Mr de Savary suggested there was scope for joint ventures, although he declined to specify what these might be. "I

couldn't contribute to the technical side of the TV station," he said, "but we will be looking at ways of combining their liquidity and our experience."

The 6.25m shares bought by Mr de Savary are part of the 24.9 per cent stake in TV-am sold by Mr Kerry Packer to Mr Alan Bond's Bond Media (UK) in February last year.

The Independent Broadcasting Authority, which has approved the LandLeisure acquisition, decided at that time that Mr Bond would only have voting rights for 10 per cent of his stake. A final deadline of August 20 was set for Mr Bond to take his stake in TV-am below 20 per cent.

The other major shareholders in TV-am are Aitken Telecommunications, with 10 per cent, and Quantum Overseas with about 5 per cent.

Yesterday's statement implying that TV-am was planning to widen its activities surprised industry observers.

The IBA has recently warned TV-am that it wants to see improvements to its programmes.

LandLeisure was in the limelight at the start of this week when its shares were suspended due to merger talks with West Country brewer, J. A. Devenish. However, the talks have proved abortive. Yesterday, the shares dropped 13p to 405p.

## Evered expands its US quarry products side

By Nikki Tait

EVERED HOLDINGS, the industrial and building products company headed by the Abdullah brothers, is expanding further its American quarry products interests.

Evered is paying \$39.5m (£22.8m) for Fidler Inc., an Indiana-based company where operations range from sand and gravel and ready-mix concrete to concrete blocks and building materials.

The US company was founded in 1946 and takes in 13 ready-mix concrete plants and two block manufacturing plants. In the year to end 1987, Fidler made pre-tax profits of \$6.9m on sales of \$40.6m. The book value of its assets was \$16.1m, but Evered directors say that they believe a revaluation will produce a surplus over this figure.

Evered initially moved into the quarry business through its £100m bid for London and Northern last year, and then in March expanded on the UK front by swapping certain housebuilding interests for the quarrying operations of Reine Industries.

After the latest deal, Evered will have a heavier weighting, in terms of quarry interests, in the States and said yesterday that it is looking to redress the balance. It recently acquired a stake in Breddon, the limestone quarry operator, but suggests that its current attention is centred on a couple of smaller situations.

## Charterhall stake raised

By David Cohen

CHARTERHALL, the investment company steered by Australian entrepreneur Mr Russell Howard, has increased its stake in A. Goldberg & Sons, Glasgow-based fashion retailer, to over 20 per cent signalling possible hostile bid intentions.

A Charterhall spokesman said yesterday that the move through 20 per cent was significant because it brought into play an earlier undertaking by Goldberg's management to welcome a Charterhall seat on the board. This claim was flatly denied

by Goldberg's group finance director, Mr Ian Steven. "There seems to be a great difference between their aspirations and our intentions. Both a bid and designs for a place on the board would be resisted," he said.

Charterhall has over the last 12 months built up a stake in Goldberg. Earlier this week, it lifted its holding from 17.2 per cent, to become Goldberg's largest shareholder, and today holds 2.5 per cent more than the combined Goldberg family.

## Astra Hldgs meets forecasts with £6.04m

By Clare Pearson

PRE-TAX PROFITS of Astra Holdings, pyrotechnic and weapons company, came out in line with forecasts earlier this year when it bought British Manufacture and Research Company from the Swiss company Oerlikon.

In the year to March 31, Astra made profits of £6.04m (£1.01m for the previous 15 months). Turnover soared to £48.56m (£11.42m).

This week's announcement that Royal Ordnance had been awarded a £400m Ministry of Defence deal for explosives and ammunition was "a disappointment" in the context of the BMARC purchase, said Mr Gerald James, Astra chairman.

Earnings per share stood at 2.84p (1.54p). The proposed final dividend is 0.52p, giving 0.87p (0.25p) for the year.

## COMMENT

Astra Holdings has clearly reached for the stars since it gained its stock market listing. The acquisition of BMARC, which brought it about 800 acres in Lincolnshire, and some state-of-the-art equipment, is proof of its ambition. Never used by its Swiss owner as a profit centre, it made a loss of £2.87m last year, but its potential under Astra's management could be startling.

However, following the 22-for-25 rights issue (which still leaves gearing at about 50 per cent) none of this potential will work through to earnings share in the current year, though pre-tax profits should reach at least £10m. Shareholders must be hoping Mr James will stop buying and concentrating on building businesses in the medium term.

## COMPANY NEWS IN BRIEF

BBA GROUP subsidiary, Automotive Products, has granted an option, exercisable between May and December 1989, to Superdrive Motoring Centres, a subsidiary of Shell UK, for the purchase of AP's Auto Safety Centres business.

Superdrive has paid £2.5m in cash plus the right to use the ASC trade name for a trial period. If the option is exercised the sale price will be around £12m.

DE LA RUE subsidiary Crossfield Electronics has sold its interest in Weatherfax, weather reporting and weather communications equipment maker, to Sinclair Imaging Systems, a private investor.

Consideration is £950,000 of which £700,000 has been received in cash. MICROGEN HOLDINGS is to purchase MPCs for a maximum £3m. The initial price of £1.5m will be met by £200,000 cash and the issue of 548,524 shares. MPCs imports and distributes micrographic consumable products such as silver halide film, duplicating film and a range of associated items.

In the year ended October 31 1987 it made profits of £35,000 on turnover of £2.63m. Net assets at that date amounted to £112,000. PERRY GROUP, diversified motor dealer, has sold nine estate agents offices to Con-

nells for £1.67m cash; their value was £290,000. Perry's other three offices, located in towns where Connells are already represented, will be sold separately.

RKF GROUP is acquiring Kerry Handling and Kerry Systems of East Grinstead for £50,000 cash. Kerry designs, makes and sells specialist handling equipment to the bakery industry.

SCOTTISH METROPOLITAN Property has acquired a site in Bunhill Row, in the City, from Joint Scheme Investment for £2.5m. Planning permission has been received for development of an office building at a total cost of £2m.

S&W BERSFORD subsidiary, Erlanger Commercial Corporation, has bought 150,000 cumulative preference shares in Billingsgate City Securities and holds 4m (15.5 per cent).

LLOYDS CHEMISTS has completed the takeover of Bannister & Thatcher in a deal worth £3.7m, funded by £3.04m in cash and the issue of 582,826 new 5p shares.

HANSON: The proposed acquisition by BSN S.A. of certain assets of Hanson, namely Imperial Foods International, HP Foods Holdings, Lea and Perrins International and some assets of Brooks Bros (Tailors) will not be referred to the Monopolies Commission.

## UK STOCK MARKET REPORT 0898 123001

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## A SOUND BASE FOR AN ENCOURAGING FUTURE.

Mr. John Quinton, Chairman Barclays PLC, commenting on the results for the first half of the year 1988, said:

The performance of the Group in the first six months of 1988 has been good and I believe that Barclays is laying a sound path for success in the future. Shareholders can share my confidence that the outlook is encouraging.

Group profit at £618 million for the first half of 1988 has improved by 17% over the first half of 1987 before the exceptional provisions we then made. This improvement is attributable to strong growth in business, particularly in the UK, and sound performance in almost all sectors of the Group.

## CONSOLIDATED PROFIT AND LOSS ACCOUNT (UNAUDITED)

	Half-year ended 30.6.88 £m	Half-year ended 30.6.87 £m	Year ended 31.12.87 £m
Operating profit before exceptional provisions	567	497	984
Share of profit of associated companies	51	33	68
Profit before exceptional provisions	618	530	1,052
Exceptional provisions in respect of countries experiencing liquidity problems	-	570	713
Profit/(loss) before taxation	618	(40)	339
Taxation	223	28	148
Profit/(loss) after taxation	395	(68)	191
Attributable to minority interests	2	4	6
Attributable to members of Barclays PLC	393	(72)	185
Dividends	111	77	171
	282	(149)	14

*Earnings per Ordinary share	43.2p	(8.8p)	22.1p
*Dividends per Ordinary share:			
First interim (payable 12 October 1988)	10.0p	9.0p	9.0p
Second interim	-	-	10.9p
*Net asset value per Ordinary share	480p	440p	480p

\*1987 comparatives have been restated to take account of the rights issue in 1988. This information does not comprise full accounts within the meaning of Section 254 of the Companies Act 1985. Full accounts for the year ended 31st December 1987 containing an unqualified audit report were delivered to the Registrar of Companies in accordance with Section 241 of the Companies Act 1985.

We plan to build Barclays into one of the strongest international banks, able to compete profitably and serve our customers effectively across the world. To this end, we have taken steps to boost our capital, to improve the quality of our assets and to enhance our product range.

This strategy is beginning to pay off and we are confident that it will enable us to continue the growth in profits and the improvement in earnings per share which is evident this half-year.

John Quinton  
J. G. Quinton, 28th July 1988.



**BARCLAYS**

FURTHER DETAILS OF BARCLAYS RESULTS FOR THE FIRST HALF OF 1988 MAY BE OBTAINED FROM: THE SECRETARY, 4 LOMBARD STREET, LONDON EC3A 3AH.

The contents of this advertisement have been approved for the purposes of Section 57 of the Financial Services Act 1986 by Barclays Bank PLC, an "authorised person" under the Act. It should be noted that past performance is not necessarily an indication of future performance.

This advertisement is issued in compliance with the requirements of the Council of The International Stock Exchange. It does not constitute an invitation to any person to subscribe for or to purchase shares. Application has been made to the Council of The International Stock Exchange for the whole of the Ordinary share capital of Dukeminster Plc, issued and to be issued, to be admitted to the Official List. Dealings are expected to commence on Thursday, 4th August, 1988.

## DUKEMINSTER Plc

(Incorporated in England and Wales under the Companies Act 1985, Registered No. 224762)

## Placing by

BARCLAYS de ZOEETE WEDD LIMITED  
of 20,000,000 Ordinary shares of 10p each  
at 75p per share

## Share capital following the Placing

	Issued and to be issued fully paid £000
Authorized	
9,800	
Ordinary shares of 10p each	7,175
2,800	
Cumulative Convertible Redeemable Preference shares of 10p each	2,778
12,600	
	9,953

Dukeminster Plc is engaged in property investment and trading, principally in the office, retail and industrial sectors.

Of the 20,000,000 Ordinary shares placed, 25 per cent. have been placed by the Secondary Distributor referred to below.

The Listing Particulars relating to the Company are available in the statistical services of Eutel Financial Limited and copies may be obtained during normal office hours up to and including 12th August, 1988 at the registered office of the Company, Newton House, 118/119 Piccadilly, London W1V 9JF and from:

Brokers  
de Zoete & Bevan Limited  
Elbgate House  
25 Swan Lane  
London EC4R 3TS

Sponsors  
Barclays de Zoeete Wedd Limited  
Elbgate House  
2 Swan Lane  
London EC4R 3TS

Secondary Distributor  
CL-Alexanders Ltd & Crutchbank  
Piercy House  
7 Copthall Avenue  
London EC2R 7BE

and, up to and including 2nd August, 1988 only, from the Company's Announcements Office, The International Stock Exchange, 44-50 Finsbury Square, London EC2A 1DD.

29th July, 1988

THIS ANNOUNCEMENT APPEARS AS A MATTER OF RECORD ONLY

MANAGEMENT BUY-OUT  
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SYNDICATED MEZZANINE  
LOAN FACILITIES OF £30,000,000  
LED, MANAGED  
AND ARRANGED BY 3i PLC  
UNDERWRITER 3i PLC

Participants  
3i plc  
Bank of Boston Limited  
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3i

3i PLC, 91 WATERLOO ROAD, LONDON SE1 8XP 01-928 7822

### Residential Property Securities No. 2 PLC

£200,000,000

Mortgage Backed Floating Rate Notes 2018

The rate of interest for the three month period 27th July, 1988 to 27th October, 1988 has been fixed at 11.2625 per cent. per annum. Coupon No. 1 will therefore be payable on 27th October, 1988 at £2,831.01 per coupon.

S. G. Warburg & Co. Ltd.  
Agent Bank

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12th September 1988

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ECAP 48V

FINANCIAL TIMES  
LONDON & NEW YORK

## UK COMPANY NEWS

## Millicom says Racal float may cost holders £560m

By Hugo Dixon

SHAREHOLDERS IN Racal stand to lose £560m if they back the management's scheme for floating off 20 per cent of the telecommunications subsidiary, according to Millicom, one of Racal's largest shareholders.

In a circular sent to shareholders yesterday, Millicom has for the first time produced figures to back up its contention that shareholders would be better off backing its rival scheme for a complete demerger of the UK electronics company and Racal Telecommunications Group.

Millicom's argument rests on what it calls the "double dis-

count" that will occur if there is only a partial demerger.

The first discount, it maintains, will occur because RTG will be a controlled company. As a result, it will be bid-proof and less likely to be run for the benefit of shareholders, so limiting its stock market value.

The second discount, Millicom says, will occur because the full market value of the RTG will not be reflected in Racal's share price.

Millicom argues that the first discount will amount to 10 per cent and the second to 10 per cent. This, it says, will mean the shareholders' assets will be worth £2,040m under

the management's scheme instead of £2,600m under its proposals.

Racal said it disagreed with Millicom's arguments, but it would not be answering them in detail until next week.

There seems, however, to be some movement in Millicom's favour. Mr Chris Tucker, an analyst at Kleinwort Greaveson, said Millicom's proposals were better than the management's.

The management has put together a structure that means we shareholders get whacked twice," Mr Shelby Bryan, Millicom's chairman, said.

## Dukeminster comes to market valued at £53.8m

By Paul Cheeseright, Property Correspondent

DUKEMINSTER, the property investment and trading company controlled by the Shohet family, yesterday came to the market to raise a total of £38.4m via a share placing of 27.9 per cent of its equity and a convertible preference issue.

Barclays de Zoete Wedd, which arranged the placing of 20m ordinary shares at a price of 78p each, showing a 14.9 per cent discount to their net asset value, said that there was excess demand for the shares. Trading starts next Thursday.

The ease of the placing provides further evidence of the market's sentiment in favour of property companies specialising in the accumulation of assets rather than the growth of development projects.

The share placing raises a net £13.5m for Dukeminster and gives the company a market capitalisation of £53.8m. A further £24.9m is coming from the convertible preference

shares issue, to which American Express has subscribed £12.5m and the Shohet family £2m.

These new funds come on top of a recent injection of £5m into Dukeminster's equity by the Shohet family.

Dukeminster, which has absorbed the interests of NH Finance, another Shohet vehicle, has a property portfolio worth £141.2m. The majority of the properties are in London and the south-east. Of the total, £38.3m-worth are trading properties.

Dukeminster has a rent roll of £8.28m a year, expected to rise to £11m over the next three years. About 40 per cent of the portfolio is in retail property, 40 per cent in offices and 15 per cent in industrial premises.

In 1987, Dukeminster had pre-tax profits of £2.67m and in the five months to May 1988, pre-tax profits were £1.67m.

## Hill & Smith advances

HILL & SMITH Holdings, engaged in steel stockholding, drop forgings and fabricated products, lifted its first half profit to the end of March 1988 from £1.32m to £2.39m, and is raising the interim dividend from 1.22p to 1.50p.

The mild winter led to con-

stant high demand for products of the fabrication side in the period, therefore, the directors, following the normally higher second half may be reduced this year, although the directors were confident of the result.

Turnover rose from £17m to £24m.

## Ketson makes agreed bid for Moorgate Grp

By Vanessa Houlder

Ketson, communications group formed last year from the Gleanfield Lawrence property and motor dealer, yesterday announced an agreed bid for Moorgate Group, USM-quoted financial marketing company.

And Moorgate announced that as a result of crash-induced losses in the US its pre-tax profits for 1987 fell from £226,284 to £416,848.

Turnover increased to £23.6m (£11.2m). Earnings per share fell from 7.3p to 2.5p. The dividend has been passed after paying 1.82p for 1988.

The offer of five shares for four Moorgate values Moorgate at about £7.7m, after Ketson's share price rose 3p to 95p yesterday. The combined group would have a market capitalisation of about £17m.

About 42 per cent of Moorgate shareholders have undertaken to accept the offer.

Mr Jeremy Bond, chairman of Moorgate, said the merger would cut Moorgate's exposure to a single market sector.

The US operation made an operating loss of £621,000, following the crash and in addition was responsible for interest charges of £133,000. The group is now withdrawing from the US, resulting in an extraordinary debit of £568,000.

By contrast the UK business increased its operating profits by 11 per cent to £1.14m.

## Dalepak maintains market share as profits fall to £1.1m

By Nikki Tall

DALEPAK FOODS yesterday unveiled a 26 per cent fall in full-year profits to £1.1m. The Yorkshire-based company is the biggest supplier to the British grillsteak market.

Dalepak, which reported a 42 per cent profit downturn at the interim stage, said the year had been difficult for the industry, although it retained its 80 per cent brand share.

On the one hand, the grillsteak market stabilised at a retail value of £78m, after the past two years' growth. On the other, it suffered from a 30 per cent increase in manufactured beef prices in the first half. Dalepak's position was exacerbated by production overheads geared to higher sales.

The November price increase and some cost-cutting helped in the second half, but sales were still lower than expected. Turnover in the 12 months to April was £18.5m (£18.2m). Aside from the grillsteak operations, difficulties faced by the Budget Gourmet and Farmhouse frozen ready-meal ranges have led Dalepak to limit this business to products which can be produced in the grillsteak factory. The ready-meal factory will be used for chilled food production instead.

Earnings per share dropped from 8.67p to 6.6p. The unchanged final dividend of

1.8p makes 2.7p for the year.

## COMMENT

Mr Chris Ivory - the ex-Northam Foods man who slipped into the chief executive's chair at Dalepak in November - clearly has no illusions about the problems of a one-product company. But seeing where Dalepak should go, and getting there speedily, are different things. New products like vegetarian grillsteaks have apparently been well received, and the switch to chilled ready meals seems sensible. However, the fact remains that at least four-fifths of total group sales in the current year will probably come from the company's traditional meat-based product. Meat prices remain firm, and Dalepak's 5 per cent price rise last year has met with unenthusiastic response. Further acquisitions, following frozen pie business Fawcett, could help - except that the potential scale of purchases is somewhat limited by a 40 per cent gearing level at the year-end, and the reluctance of directors to dilute their controlling interest. With brokers' earnings forecasts down to £1.35m yesterday, the shares (down 6p to close at 81p) are on a prospective multiple of just over 10. That looks justifiably cautious.

## Boots chief under fire

By Maggie Urry

MR ROBERT GUNN, chairman of Boots, the retail chemist and pharmaceutical group, faced tough questioning from shareholders at yesterday's annual meeting. He was asked why his salary had risen by 19 per cent last year when earnings per share were only 4.6 per cent higher.

Mr Gunn said that all Boots' senior executives' salaries had been reviewed to bring them in line with earnings in the industry. Directors' salaries are set by a remuneration committee, largely made up of non-executives.

Mr Gunn told shareholders that group sales were up by 4.5 per cent in the first quarter of the current year, which began

on April 1. He said that although the sales increase was modest, profitability had risen. Boots' shares fell 4p to 218p yesterday.

The retail division had seen a first quarter sales rise of 5.1 per cent, adding to evidence that some retailers have suffered a poor summer. The period compared with a strong first quarter the previous year.

Boots is also feeling the effect of poor sales of durable goods, and the withdrawal of some lines such as pet foods, which had been unprofitable.

The group has nearly finished negotiations to sell or close its stores in Western Canada, with completion expected by the end of August.

## NEWS DIGEST

## PORTSMOUTH &amp; SUNDERLAND NEWS

### Profit rise of 22% in first quarter

IN ITS first quarter ended July 2 1988 Portsmouth and Sunderland Newspapers lifted pre-tax profit by 22 per cent, from £1.47m to £1.8m.

That was generated from turnover showing a 16 per cent increase, from £14.92m to £17.51m.

Earnings were 8.9p (7.6p) and there was an extraordinary credit of £27,000.

## JOHN I JACOBS

### Downturn in first half

A substantial reduction in other operating income hit John I. Jacobs in the first half of 1988, and led to a drop in pre-tax profit from £348,000 to £339,000.

However, the interim dividend is held at 1.5p, from earnings of 1.21p (2.39p).

Turnover of this shipbroking and shipowning group moved up to £15.7m (£1.22m) and gross profit to £568,000 (£227,000). Other income dropped to £328,000 (£1.18m).

## CONTINENT. ASSETS

### Net assets show recovery

Continental Assets Trust reported net asset value of 106.6p basic at the end of June 1988 compared with 84.5p at the beginning of the year and 143.9p a year earlier. The fully-diluted figures were 105.5p against 138.4p.

Net revenue for the six months to June 30 was £52,000 (£59,000) for earnings per 75p share of 0.43p (0.49p).

## RAGLAN PROPERTY

### Turnover lifted 21% to £9.2m

Raglan Property Trust, property development concern, raised pre-tax profits by 28 per cent from £678,885 to £871,888 for the year ended March 31 1988. Turnover grew 21 per cent to £9.2m.

After tax of £361,738 (£361,000) earnings per 1p share climbed from 0.38p to 0.43p.

## while the dividend is increased to 0.132p (0.11p).

The directors said the company had a rapidly growing programme in the order of £100m and they were confident that the successful outcome of these development projects would enable them to look forward to the current year's results.

Net asset value per share was 10.5p (8.1p).

## TOMORROWS LEIS.

### Investment affects results

Tomorrows Leisure, which joined the Third Market in November last year, saw pre-tax profits rise £25,000 to £281,500 in the year to the end of March 1988. Turnover rose more than 1 1/2 times from £2.85m to £4.6m.

The directors said that the decision to advance its planned investment programme had an effect on the results.

After tax of £12,780 (£8,064) earnings per 20p share came out at 2.5p (2.2p).

The company had made a promising start to the present year, the directors said, and profit plans indicated that there should be another successful year.

## CONROY PETROLEUM

### Losses reduced to £73,000

Losses before tax were reduced at Ireland-based Conroy Petroleum in the six months to February 29, falling from £119,000 to £73,000 (£51,550). Moreover there were no extraordinary items (debit £344,000). Operating revenues were up £10,000 to £21,000.

The chairman said the company continued to make progress and could look forward to the future with confidence.

## FORMINSTER

### Proposed final dividend of 5.6p

Forminster, maker of outdoor clothing, reported record pre-tax profits of £1.99m for the year to April 30 against £1.83m. Turnover was up from £18.58m to £20.35m.

Earnings per 10p share were 34.87p (31.41p) and the total dividend is being raised to 8.1p (7.19p) by a proposed final payment of 5.6p.

## JOSEPH WEBB

### Profit doubled at £1.02m

Joseph Webb, the West Midlands group with interests

leisure, and property, reported pre-tax profits doubled from £525,000 to £1,020,000 in the year to March 31. This result was scored on turnover which slipped from £5.8m to £5.38m, and, of this, £5.04m related to holidays and leisure.

### Société Nationale des Chemins de Fer Français

£75,000,000  
Guaranteed Floating Rate Notes 1993  
(redeemable at the holder's option in 1990)  
unconditionally guaranteed,  
as to payment of principal and interest, by

### The Republic of France

In accordance with the provisions of the Notes, notice is hereby given that, for the three month period 27th July, 1988 to 27th October, 1988, the Notes will bear interest at the rate of 11 1/4 per cent. per annum. Coupon No. 20 will therefore be payable at the rate of £140.61 per coupon from 27th October, 1988.

S. G. Warburg & Co. Ltd.  
Agent Bank

U.S. \$500,000,000  
**CITICORP**  
(Incorporated in Delaware)  
Subordinated Floating Rate Notes Due January 30, 1998  
Notice is hereby given that the Rate of Interest has been fixed at 8.2% and that the interest payable on the relevant Interest Payment Date August 31, 1988 against Coupon No. 31 in respect of US\$10,000,000 nominal of the Notes will be US\$75.17.  
July 29, 1988, London  
By Citicorp, N.A. (CSI Dept.), Agent Bank **CITIBANK**

NOTICE OF PARTIAL REDEMPTION  
ALICO INTERNATIONAL LIMITED  
Guaranteed Floating Rate Notes 1988  
Unconditionally and Irrevocably  
guaranteed by  
THE LONG TRUST COMPANY BANK OF JAPAN LIMITED  
NOTICE IS HEREBY GIVEN that, pursuant to Condition 4(b) of the Notes Allico International Limited, has elected to redeem on August 5, 1988 at 100% US\$2,000,000 of the outstanding Notes. The Notes drawn for redemption are numbered as follows:  
47 20 98 143 170 188 242  
247 270 347 375 388 442 447  
486 542 647 670 682 687 693  
695 742 776 788 842 886 842  
847 889 1047 1070 1088 1147 1170  
1186 1242 1247  
Payment will be made upon surrender of the Notes, together with all coupons maturing after the date fixed for redemption at the offices of the Paying Agents as shown on the Notes. Coupons maturing on August 5, 1988 should be detached and presented for payment in the usual manner. On and after August 5, 1988 interest on the Notes will cease to accrue and unremitted coupons will become void. After August 5, 1988 US\$2,000,000.00 of the Notes will remain outstanding.  
By Citicorp, N.A. (CSI Dept.), London, Paying Agent

### MAES Funding No. 1 PLC

£200,000,000  
Mortgage Backed Floating Rate Notes due 2018

Notice is hereby given that the Rate of Interest has been fixed at 11.10625% for the interest period 25th July, 1988 to 5th October, 1988.

The interest amount payable on 5th October, 1988 will be £2,184.84 in respect of each £100,000 denomination.

Agent Bank  
25th July, 1988

## The name may have changed but the people remain the same.



Dave Macnamara



Graham Russell



Julian Pattifryman



## THE TEAM

Left Picture: S. Myers, P. Collins, S. Mahew-Sanders, S. Crooks, K. Thompson.  
Right Picture: R. Meaney, I. Throssell, R. Bole, S. Pearce, S. Langman.

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## UK COMPANY NEWS

## Telfos raises value of bid for Runciman to £31.6m

By Clay Harris

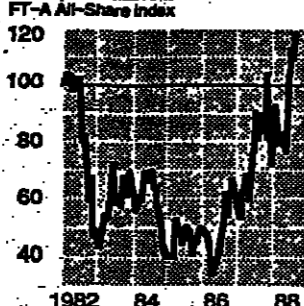
**TELPOS HOLDINGS**, the diversified engineering company, yesterday raised to £31.6m the value of its hostile takeover bid for Walter Runciman, the shipping, security and insurance group. The new terms, an advance from £27.4m, are final unless a competing offer emerges.

Runciman is due to fire its final defensive salvo today, including a profit forecast for the current year and a dividend forecast for 1989. Last week, Runciman said it would pay at least 9.5p for this year, a 46 per cent rise over 1987.

Yesterday, Mr Garry Runciman, chairman, said Telfos's "marginal revision" still left the offer far short of an adequate recognition of his com-

Walter Runciman

Share price relative to the FT-All-Share Index



pany's true value. Runciman shares slipped 8p to 345p, below the 360p value of Telfos's paper offer, but still

above the increased cash alternative of 22p. Telfos closed 1p down at 172p.

For every four Runciman shares, Telfos is now offering a unit consisting of six ordinary shares, three £1 cumulative preference shares paying 9 per cent net, and one warrant. The revised terms drop a small cash element from the previous package and add the warrant and additional preference shares.

By Wednesday, Telfos had received acceptances for 0.56 per cent of Runciman's shares to add to the 24.58 per cent it owned before launching the bid. Mr Runciman yesterday said that this "insignificant acceptance level" demonstrated the inadequacy of the offer.

## United Biscuits sells Spice Islands

By Christopher Parkes, Consumer Industries Editor

**UNITED BISCUITS** has agreed to sell its US subsidiary, Spice Islands, to Fleischmann Yeast, part of the Australian food group, Burns Philp.

The price was not disclosed, but UB said it compared favourably with the \$56m offered in January by McCormick, the leading US spices company.

That sale was called off two months ago after the Federal Trade Commission ruled that it could reduce competition in the spices trade. McCormick has about a 40 per cent share. Fleischmann deals in yeast, dates and pimentos in the US and Canadian consumer markets.

The agreement in principle to sell to Fleischmann is expected to be finalised within a few weeks, when the statutory pre-merger waiting period expires and final details have been worked out.

The disposal completes the liquidation of Specialty Brands, a groceries subsidiary which UB decided to sell because of disappointing results. Earlier disposals of olives and salad dressings subsidiaries to Campbell Foods raised \$155m.

## Reorganisation costs hit Kode Intl profits

Problems with a supplier and shortages of a main component were blamed by Kode International, computer equipment group, for a 10 per cent fall in turnover from £14.57m to £14.5m in the 24 weeks to June 17.

In addition the pre-tax figure was hit by costs of reorganisation in the information technology division of £217,000 leaving profits at £791,000, against £1.3m, a fall of 39 per cent.

However Mr Alan Brooker, chairman, said that margins had been substantially maintained and there was a large backlog of orders at the end of the period. He added that the equipment supply problems appeared to have ended but dynamic random access memory chips were still scarce. Earnings worked through at 8.9p (14.5p) and the interim dividend is being maintained at 5p.

## Good second half boosts Abbey result

**Abbey**, the Dublin-registered housebuilder and plant hire company operating throughout southern England, accelerated in the second half and finished the year with a 72 per cent advance in pre-tax profits.

In the period ended April 30 1988, turnover rose 50 per cent from £67.56m to £101.1m (£85m), and taxable profit came to £17.2m (£9.7m) after almost unchanged interest charges of £2.78m.

Last October the company raised £11.62m through a placing. Gearing has been cut substantially from 84 to 35 per cent and assets per share rose to 124p (72p).

Earnings for the period rose to 30.77p (19.44p) and the final dividend is 3.8p, for a total of 6p (4.38p).

The directors said housebuilding and plant hire again produced record figures, and Abbey had re-entered the commercial property development market in a planned manner, which would not dilute the principal thrusts in the other two areas.

## Gallaher surges 43% to near £117m

Strong improvements from both tobacco and non-tobacco operations enabled Gallaher, an American Brands subsidiary, to lift pre-tax profits by 43 per cent from £81.4m to £116.7m in the first half of 1988. Sales were 8 per cent higher at almost £22bn, against £1.89bn.

Trading profits from tobacco rose 30 per cent to £92.5m (£71.3m), while non-tobacco profits grew 48 per cent to £25.5m (£17.2m). Improvements were achieved by the optics, distribution and office products divisions, but there was a slight downturn on the housewares side.

The sale of the engineering division has almost been completed. These disposals resulted in extraordinary credits this time of £5.4m.

Mr S.G. Cameron, the chairman, said the UK cigarette market had remained virtually stable in the period, but Gallaher Tobacco had achieved a substantial share growth and increased volume.

## Broad Street profits decline

By Andrew Hill

**BROAD STREET** Group, public relations and communications undertaking, announced pre-tax profits of £556,000 for the 17-month period to March 31 1988.

Despite the longer reporting period, profits were 43 per cent down on the £500,000 made in the year to October 31 1987. However, the figures included provisions of £235,000 for bad debts and redundancy costs, taken above the line, offset by a £35,000 exceptional gain on investments.

Mr James Gulliver, who took over as chairman last December after buying a 10 per cent stake, said the directors' confidence in present trading was underlined by their recommendation of an unchanged 1.1p dividend for the year.

The group, which is quoted on the USM, also announced the purchase of Lynne Franks, the consumer PR company, for an initial £2.64m to be funded

by a vendor placing of 6.4m ordinary shares. A further £29,194 shares will be issued to raise £175,000 covering expenses.

Shares will be offered to existing holders on a one-for-five basis at the placing price of 41p each, against yesterday's unchanged closing price of 45p. In the last five months of the 17-month period the group returned to profit, with £358,000, against losses of £33,000 in the preceding six months.

Earnings per share fell 32 per cent to 1.16p for the period (2.45p).

## COMMENT

As yet, it is difficult to judge the effects on Broad Street of "Gulliverisation", as the company calls it. Compared with previous years

month by month fee income is apparently rising and the

group says rigorous financial controls have been installed, particularly in the Broad Street Associates PR business, root of most of the problems.

In addition, the group has temporarily pulled back from trying to grow its consumer PR and advertising operation organically, instead - as the Lynne Franks purchase demonstrates - Broad Street is looking at the acquisition of companies which have already established credibility in those areas. Nevertheless, until it proves otherwise the company's good name for PR is likely to be more than offset by its lingering reputation for loose management, even with Mr Gulliver at the helm. In the current year, forecast pre-tax profits of £1.9m put the shares on a prospective multiple of about 14, useful for funding acquisitions with paper, but still something of a gamble for investors.

## Pearl pension business growth

By Eric Short

**PEARL ASSURANCE** Company sold more than five times the amount of pension business to the self-employed in the first six months of this year than in the corresponding period of last year - £13.58m of new annual premiums against £2.65m.

Single premium pension sales more than doubled over the period from £360,000 to £2.18m.

These buoyant pension sales enabled the company to record an 88 per cent increase in new annual premium business in the Ordinary branch in the first half of this year, from

£13.43m to £24.52m.

However, dull conditions in the life market in the aftermath of the stock market crash last October resulted in a decline in single premium business from £108.85m to £87.41m, with sales of linked-life bonds falling by 61 per cent from £79.4m to £31.02m.

## COMPANY NEWS IN BRIEF

**BOSCOMBE PROPERTY**: Pre-tax profits for year to March 31 1988 were £108,887 (£124,387). Gross rental income £329,787 (£496,659). Earnings per share 82.5p (76.29p). No dividend (same).

**DERBY TRUST**: At June 30, net asset value 831p (793p) at December 31, 1987) per capital share and 283p (264p) assuming full subscription of warrants. Net available income £597,520 (£561,254) for first half of 1988 and earnings per income share 6.054p (4.752p). Interim

dividend 5.059p (4.752p).

**GOVETT F&E EAST** Investments: net profit attributable to shareholders stood at £122,746 (£71,781) at the end of the six months to June 30. Gross revenue amounted to £302,631 and profit was £121,609 before tax of £1,157. The company gained a stock market quote in April 1987.

**ROMNEY TRUST**: net asset value was 426.6p at the end of the six months to June 30, compared with 350.8p at December 31 1987 and 487.7p at

the end of the six months to June 30 1987. Gross revenue in latest period was £1.44m (£1.27m). After tax of £352,000 (£268,000) earnings came out at 2.48p (1.84p). The interim dividend is 2p (1.65p) and a final of 3p is forecast.

**ST ANDREW TRUST** reported net asset value of £22.6p at June 30 1988 against 246.5p a year earlier. Earnings per share were 2.4p (1.96p) for the six months to the end of June and the interim dividend is being raised to 1.8p (1.5p).

## 1988 First Half Year Results

## Record first half from ICI.

Group profit before tax reached a new high of £783m in the first half of 1988, £92m (13%) above the first half of 1987. The advance resulted from strong growth in sales volume, firm margins and a good performance from former Stauffer agrochemical products. In the second quarter of 1988 profit exceeded £400m for the first time. The key figures with comparisons for the first half of 1987 are as follows:

	2nd Quarter 1988	First Half 1988	First Half 1987
	£m	£m	£m
Turnover	2,930	5,867	5,569
Profit on ordinary activities before taxation	425	783	691
Earnings before extraordinary items per £1 Ordinary Share	37.8p	69.3p	59.2p
Interim dividend per £1 Ordinary Share	-	18.0p	16.0p

The results are set out in the second table following.

In the first half of 1988 turnover increased by 5% compared with the same period in 1987. Sales volume rose by 11% with one third of this attributable to acquisitions: selling prices in local currencies advanced by an average of 3%. These increases were partly offset by an adverse movement on exchange which reduced Group turnover by 9%.

The underlying business performance in Consumer and Specialty Products remained strong, with further growth in each sector. Overall profits expressed in sterling were slightly down on 1987 due to the substantial impact of changing currency values, particularly the US dollar. In pharmaceuticals, sales volumes of key products continued to grow strongly and the business maintained an active programme of new product launches around the world. Paint demand was buoyant in most sectors in Europe and North America. Colours and fine chemicals continued to improve and polyurethanes profit remained firm.

Trading profit in Industrial Products was £351m in the first half of 1988, an increase of £60m on the same period in 1987. General chemicals and petrochemicals and plastics profits advanced as the businesses continued to benefit from strong demand and relatively low feedstock costs.

In Agriculture, first half profit increased by £44m to £106m in 1988. Agrochemicals and plant breeding advanced by £71m, with a strong contribution from former Stauffer products. Fertilizer sales deteriorated and the business recorded a loss of £12m in the first half of 1988, including restructuring costs of £6m relating to straight nitrogen fertilizers.

Group profit before tax in the second quarter of 1988 was £425m, £67m above the first quarter. Profit benefited from the seasonal strength of some high margin businesses and lower costs. Sales volume in the second quarter rose by 2% and local currency selling prices advanced by 1%.

A £44m charge for extraordinary items in the first half of 1988 is in respect of restructuring UK compound fertilizer production facilities, as announced earlier.

The outlook for the remainder of 1988 is encouraging given reasonable international trading conditions.

The following table summarises the quarterly sales to external customers, profit before tax and earnings per share. A summarised profit and loss account is given in the second table following.

Trading results for the first nine months of 1988 will be announced on Thursday 27 October 1988.

## IMPERIAL CHEMICAL INDUSTRIES PLC

## Aaronson Bros. PLC

## Interim Report (unaudited)

	Half-year ended 31.3.88 £'000	Half-year ended 31.3.87 £'000	Year ended 31.12.87 £'000
Turnover	62,196	54,347	107,070
Profit before taxation	3,168	2,848	5,578
Taxation	350	696	1,133
Group net profit	2,818	2,152	4,445
Extraordinary charges	740	-	1,210
Net dividend per ordinary share	1.6p	1.7p	5.45p
Earnings per ordinary share	7.63p	5.90p	12.06p

## Interim Results

Profit before taxation for the half-year period was ahead of that for the comparative period in 1987 on turnover increased by approximately 14 per cent to £62,196,000. As a result of our ongoing capital investment programme we anticipate a low tax charge for this financial year and taxation has therefore been provided for this period on that basis. The extraordinary charge reflects the costs of discontinued operations.

## Interim Dividend

An increased interim dividend of 1.8p per share (1987: 1.7p) is recommended.

## Current Trading and Prospects

In accordance with the Group's stated policy of placing increased emphasis on its core manufacturing businesses the Board has concluded the sale of the distribution companies in England. It has also decided to close distribution operations in Eire.

The Board is confident in the light of current circumstances that results for the year should be ahead of last year.

**AB**

Aaronson Bros. PLC, Aro House, 18-19 Long Lane, London EC1A 9NT



**Abbey**  
p.l.c.

## PRELIMINARY RESULTS

Group profit for the year ended 30th April 1988

	1988 IR £'000	1987 IR £'000
TURNOVER	101,118	67,564
PROFIT BEFORE TAX	17,187	9,969
TAX	5,809	3,122
PROFIT AFTER TAX	11,378	6,847
DIVIDENDS	2,324	1,526
RETAINED PROFIT FOR THE YEAR	9,054	3,821
EPS (ADJUSTED)	30.77p	19.44p
GEARING	35%	84%

- Another Record Year in Housing and Plant Hire.
- Group Profits up 72% to IR£17.2 million.
- Investment in Land, Plant and New Depots continues.
- Progressive return to Commercial Property Development.
- Further substantial growth planned for current year.

Abbey House, 2 Southgate Road, Porters Bar, Herts.

The contents of this Statement, for which the directors of Abbey plc are solely responsible, have been approved for the purposes of Section 57 of the Financial Services Act 1986, by Ernst & Whinney as an authorized person. Past performance is not necessarily an indication of future performance.

**Abbey HOMESTEADS (DEVELOPMENTS) LTD**  
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**Abbey PROPERTIES LTD**  
Commercial Property Development

**Abbey PLANT Hire**  
M & J ENGINEERS LTD  
Plant Hire

**Abbey TRAIL RENTALS LTD**  
Trailer Building Rental & Sales

## COMMODITIES AND AGRICULTURE

## Traders 'bale out' as coffee plunge continues

By David Blackwell

COFFEE PRICES continued to plunge yesterday in London as traders holding long positions "simply baled out," as one dealer put it.

The second position robusta futures contract on the London Futures and Options Exchange (Fox) collapsed to a seven-year low of £367 a tonne before closing at £385 a tonne. This compares with a closing of £1,046 on Wednesday, when prices tumbled £37 a tonne in spite of a 1.5m bag cut in the International Coffee Organisation's total world export quota.

A lack of confidence in the ICO's ability to support world prices was one of the major factors in the shake-out of

speculative money in New York on Wednesday night. The coffee, cocoa and sugar futures contract for September fell 8.90 cents a lb to 124.05 cents as rumours spread that the ICO agreement was in danger of collapse.

Both Colombia and Brazil last night said that they were leaving, or threatening to leave, the agreement were untrue. Mr. Lindenberg Sette, the Brazilian delegate, was reported by Reuters as saying the rumours had "depressed the market without any basis in fact whatsoever."

"If it were not so serious it would be childish for the

market to fall on such unfounded rumours," he said.

Talks are underway at the organisation's headquarters on the shape the next coffee agreement should take when the current one expires in September next year. But producers and consumers are far apart, and little progress is expected until the full ICO Council meets this September.

The London market is now extremely nervous, and watching the New York price movements carefully, said one dealer last night. Yesterday's sharply lower New York opening was a further surprise to the market - US dealers had predicted it would be broadly unchanged.

## Cuban farm prospects improve as drought ends

By David Owen, recently in Havana

A SEVERE drought which has tormented Cuban farmers for four years is over, improving prospects for the island's sugar, tobacco and citrus fruit harvests in the 1988-89 crop year.

The lack of moisture has impaired both the quality and quantity of Cuban agricultural production since 1984. The crisis has come at a time when the loss in value of the US dollar has combined with the decline in world oil prices to precipitate an acute shortage of hard currency on the island.

Local experts are now optimistic that 1988-89 will bring Cuba's first 8m-tonne raw sugar crop since 1984-85.

Workers have responded to an exceptional call by Fidel Castro, the Cuban president, to work through the traditional July-August holiday period to clear the cane fields of weeds.

Optimism has been further bolstered by the recent improvement in world sugar markets. Prices in New York for sugar for October delivery had soared as high as 14.5 cts. a lb prior to this week's sell-off.

Ironically, rain is rumoured to have caused some spoilage of the 1987-88 crop already warehoused. The crop is now estimated at between 7.3m and 7.5m tonnes.

## Mixed blessing

That would be an improvement from the previous year's disappointing 7.1m-tonne crop but may not be enough to prevent Cuba again having to buy on the world market to meet its delivery commitments. In this case, the recent bull market in sugar would be a distinctly mixed blessing.

In 1986, when raw sugar exports totalled 6.7m tonnes, the sugar industry accounted for 77 per cent of Cuba's overall hard and soft currency export revenues.

Most of the country's raw sugar is sold to the Soviet Union on long term contracts in return for oil, a portion of which is then re-exported to the West.

The rains will also provide a boost for the island's fledgling citrus fruit industry, which has expanded rapidly in recent years as part of a drive to diversify exports.

Cuban citrus fruit exports rose by 143 per cent to 468,500 tonnes between 1980 and 1988. The country's distinctive green oranges, in particular, are developing a following, even in the West.

Playing to aluminium's strengths  
Kenneth Gooding on European producers' development strategy

SENIOR EXECUTIVES in western Europe's aluminium industry seem to have few illusions about the difficulties they face. In fact they willingly point out the problems.

To start with, Europe is becoming the non-communist world's high-cost primary aluminium producer, taking over from the US, where painful rationalisation has brought down production costs with a bang.

That might create problems for the European companies because they have less flexibility than their American counterparts and are not in a position easily to shut down production during severe downturns in demand.

At the same time, the rapid growth in demand for aluminium in western Europe, which galloped along at an annual 9 per cent before 1970, has slowed to a sedate pace in the past 10 years, following more closely the region's overall economic trends.

The European industry can no longer hope for much extra growth in volume or tonnage. Instead it will concentrate on increasing its financial returns from better material performance and products with higher added value.

The industry was well prepared for this development, according to Mr Theodor Tschopp, chairman of the European Aluminium Association.

He says, by way of example: "We have learned how to roll thinner foil, how to reduce the wall thickness of extrusions, how to produce light-weight Al-Li (sic) alloys for aircraft and how to reduce the gauge of beverage cans."

Another dimension of the aluminium industry's innovation is the production of more complex products with better performance, he says.

Modern die casting techniques, for example, allow the production of high quality aluminium components, with substantially improved mechanical properties, for the automotive industry.

Mr Tschopp says: "Increasingly we supply the customer with much more than just an

adequate product. For example, the introduction of large aluminium extrusions for rail cars was only made possible through the industry developing and supplying new design concepts and new assembly methods, thereby reducing assembly time from days to hours."

The industry is also hoping to take advantage of the attractive opportunity for improving the performance of its product by combining the specific prop-

erty of aluminium - strength and lightness - with those of other materials.

The art of combining different materials, be they metals, plastics or others, has already been well-established in many applications and today aluminium-plastic composites are standard in uses as varied as packaging for food or pharmaceuticals and even architectural elements.

With their added value strategy in mind, the aluminium producers are looking forward to 1992, when tariff barriers within the European Community are due to be removed.

Mr Tschopp says, enthusiastically: "We hope that, after negotiations between the EC and the EFTA countries, we shall have available to us a unique market of 320m people, far more than that of the US."

The aluminium industry will be able to benefit from cost savings through economies of scale.

"It will justify and encourage increased research and devel-

opment expenditures, leading the European aluminium industry to another strong innovative thrust."

Privately, other executives suggest that after 1992 it is likely that joint ventures, involving several companies, will spring up as the industry tries its hand at new downstream aluminium products.

The industry has been discussing its future against a background of exceptionally buoyant current conditions.

But none of this answers the thorny question about how the industry hopes to cope with the problems of being the world's high-cost producer of primary aluminium.

(There is less concern about the industry's fabrication operations which during the past five years have been extensively modernised at considerable cost to give productivity gains of 7 per cent to 9 per cent a year.)

As Mr Tschopp points out, the aluminium industry's structure is changing on a global level. Major new smelter capacities are being installed outside those markets, such as Europe, where fabricated aluminium products are mainly used. Capacity is moving to South America, Australia and Canada.

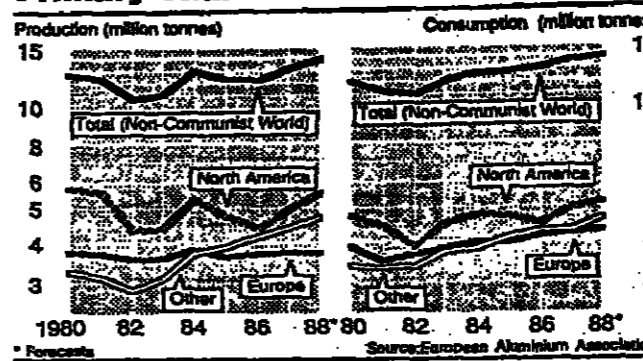
"With few exceptions, for instance Norway and Iceland, potential sites for new smelters in Europe have become very scarce," he admits.

This is of more than passing concern to the European Commission because aluminium is produced and fabricated in nearly all the community countries and the value of production is estimated at about 35bn Ecu (23bn) a year.

The European aluminium industry employs well over 100,000 people and provides jobs in many other associated sectors. The association suggests the livelihoods of more than 300,000 people in Europe depend on aluminium.

Furthermore, many of the plants are located in areas which are economically less-developed so the industry often makes a contribution to improving or developing regional economic structures.

## Primary Aluminium



Source: European Aluminium Association

Demand for aluminium is high and so are prices.

After suffering a long period of severe recession, in 1987 the industry had a banner year. Consumption of primary aluminium in western Europe reached a record 4.1m tonnes, some 600,000 tonnes more than production in the region.

Demand was satisfied partly by running down stocks to the tune of 170,000 tonnes, leaving a net import requirement of 430,000 tonnes.

The association predicts that demand this year will grow by between 1.5 per cent and 2 per cent from the 1987 record level. Stocks are down to 40 days supply and can hardly be cut any further, so imports will rise again this year.

To help compensate for the growing need for imports of primary aluminium, which come from low-cost areas such as Venezuela, Canada, Bahrain and Dubai, the European industry is putting much more emphasis on recycling and production of secondary aluminium (from scrap and reclaimed

metal).

Already the secondary metal industry provides about one third of Europe's aluminium requirements, including 80 per cent of the aluminium foundry metal consumed by the automotive industry.

It is also spending time and money to encourage recycling of aluminium beverage cans in England, Italy and Austria. In Sweden an efficient national collection system is today recovering up to 85 per cent of used cans.

But none of this answers the thorny question about how the industry hopes to cope with the problems of being the world's high-cost producer of primary aluminium.

(There is less concern about the industry's fabrication operations which during the past five years have been extensively modernised at considerable cost to give productivity gains of 7 per cent to 9 per cent a year.)

## Raw deal for Soviet drinkers

By John Lloyd in Moscow

THE SOVIET drinker is getting a raw deal under perestroika, but sugar, raw or refined, is not getting. Mikhail Gorbachev's crackdown on liquor has lowered official consumption, but immediately created a brew-it-yourself network of samogon (moonshine) stills which have helped push up sugar consumption by up to 10 per cent in many parts of the country.

The moonshiners' cause has, however, found a champion in Pravda, the organ of the Communist Party's central committee. A front page article yesterday was headed "Are we coping with the shortage?" and supplied its own answer: badly.

"There is a real danger," says the article, "that enterprises will prove unprepared for the coming season." In the past two years, the Soviet Union has bought heavily on

the world sugar market. Latest projections put this year's Soviet purchases in the range of 1.7m to 2m tonnes in spite of last year's near-record 90m tonnes domestic harvest. The US Agriculture Department meanwhile forecasts consumption here at some 14.1m tonnes of sugar between September and August 1988 - up 700,000 tonnes from the previous year.

"Part of the blame," says Pravda, "rests with the beet growers and sugar refiners. They must now decide how to cure the shortage."

Quoting figures from Goskomstat, the state statistics committee, Pravda says that the present five year plan calls for sugar refining to be stepped up to 115,000 tonnes a day and for the construction of 6.5m square metres of refining capacity. By the end of two

years, however, only one fifth of the plan's target had been fulfilled.

Pravda calls for the yield of sugar beet to increase from a present average of 250 centners (1 centner equals 100 kg) to at least 271 centners per hectare this year.

The report says that repair work at refineries has slowed, replacement equipment, particularly filtering centrifuges are in ever-shorter supply and that the reconstruction of many refineries has been interrupted, particularly in the Ukraine. It also blames extensive loss of sugar beet between field and refinery - a common problem usually ascribed to the poor state of Soviet country roads.

Meanwhile, in sweltering Moscow, the longest queues are still at the liquor shops open for only a few hours in the afternoon. And the sugar shops - when there is sugar.

## Sugar arbitrage contract planned

By David Blackwell

THE LONDON Futures and Options Exchange (Fox) is planning to launch an arbitrage contract between white and raw sugar on the Automated Trading System which it now runs for its white sugar market.

Screen-based automated trading, launched a year ago this week, has succeeded in establishing London as the centre of sugar trading. The arbitrage contract will allow trading on the price difference between the whites and the Fox raws contract, which is traded by open outcry. It is expected to be up and running within three months, Mr Con Lennan, Fox marketing director, said yesterday.

In the first year the white sugar contract has traded

478,000 lots, and is averaging 1,600 lots a day with a high level of open interest. This is a small turnover compared with the raws contract, which traded 617,240 lots in the first half of this year - but the costs of trading the whites are minimal.

The cheapness of running the automatic trading system has brought business back to London that was going to the Paris bourse. It has also allowed London Fox to consider its expansion so soon after its initial launch.

"The advent of automatic trading allows us to look at new contract opportunities," said Mr Lennan. "The cost of launching a contract in an open outcry system represents a major investment, especially

in manpower, and a major risk. "But the cost of an ATS screen is in the order of £15,000 to £20,000 a year, and a firm can trade in its back office."

The exchange is now looking at the possibility of introducing ATS contracts in rubber and arabica coffee next year.

The rubber contract would most likely be based on TSR 20 rubber - the grade most likely to attract hedgers, according to Mr Lennan. He is certain that it would attract business from the Far East (the Kuala Lumpur Commodity Exchange has a contract based on RSS 1 rubber) because the contract would be price reported, and be guaranteed and cleared through London's International Commodities Clearing House.

## WORLD COMMODITIES PRICES

## LONDON MARKETS

THE IMPACT of the Ivory Coast's policy of withholding cocoa from the market because of the low level of world prices was continuing to make itself felt yesterday. As concern deepened about the resultant tightness of supplies available for immediate delivery nearby positions were pushed higher again on the London futures market. The September position, which gained £16 on Wednesday, went up another £22 to £365 a tonne.

International Cocoa Organisation buffer stock manager confirmed yesterday that he had yet to take delivery of about 8,000 tonnes of purchases contracted for delivery by the end of this month. He said it was possible that one trader in particular might have to default on deliveries due to the buffer stock and that, in that case, he (the bsm) would have to return to the market to cover the shortfall.

SPOT MARKETS

Crude oil (per barrel FOB Singapore) - or -  
Cas Oil (Sep) \$183-185  
Heavy Fuel Oil \$171-173  
Naphtha \$140-142  
Petroleum Argus Estimates

Other:  
Gold (per troy oz) \$432.25 -0.75  
Silver (per troy oz) \$20.00 -0.30  
Platinum (per troy oz) \$222.50 -6.35  
Palladium (per troy oz) \$125.75 -0.75

Aluminium (free market) \$720  
Copper (US Producer) \$1.64-1.65 -3/4  
Lead (US Producer) \$200  
Nickel (free market) \$800  
Tin (European free market) \$4,225  
Tin (Kuala Lumpur market) \$3,850  
Tin (New York) \$3,250  
Zinc (Euro. Prod. Price) \$120  
Zinc (US Free Western) \$125

Cattle (live weight) 118 1/2p  
Sheep (live weight) 68 3/4p  
Pigs (live weight) 68 3/4p  
London daily sugar (raw) \$316  
London daily sugar (white) \$290  
Tale and Lyle export prices £293.0 -9.5

Barley (English feed) £101.75  
Maize (US No 2 yellow) \$143.50  
Wheat (US No 2 Hard) \$120.25

Rubber (spot) 74.25p -1.75  
Rubber (Sep) 80.25p -2.00  
Rubber (Oct) 80.50p -2.00  
Rubber (Nov) 80.75p -2.00  
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THE HALL KINGS OF LONDON

Continued on next page

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10/11/15

## LONDON SHARE SERVICE

[illegible]

## Money Market Bank Accounts

[illegible]

### INDUSTRIALS (Miscel.)—Contd.

July 11, 1950

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## LONDON STOCK EXCHANGE

## Takeover stocks feature in busier equity sector while sterling's strength continues to boost Gilt-edged

Account Dealing Dates			
First Dealing	Jul 28	Aug 1	Aug 15
Option Expiry	Jul 28	Aug 11	Sep 1
Second Dealing	Jul 28	Aug 12	Sep 2
Account Days	Aug 2	Aug 22	Sep 12

Notes: All dealings may take place from 9.00 am to 4.00 pm on the day.

Another strong performance by the pound kept the UK securities markets in good form yesterday. In a well-traded equity sector, interim results from ICI and Barclays were well-received, but the centre of the arena was occupied by takeover stocks, notably in the publishing sector. Share prices cooled off at the close when there were rumours of impending fundraising moves in the financial sector.

The strength of sterling pulled Government bonds higher, to the extent that some short-dated issues - reversing their recent trend - were beginning to discount a half point cut in base rates. However, bond analysts doubted the likelihood of a base rate cut at this stage.

London dealers paid little heed to the moves to higher interest rates in West Germany and Holland, but kept their eyes fixed on sterling's advance.

The equity market opened firmly, with the pound's buoyancy outweighing the effects of the overnight fall on Wall Street. The running was quickly made by takeover stocks, with Amersham International racing ahead as the UK Government's decision to redeem its Golden Finance Share switched on the speculators.

The attention quickly spread to the publishing sector, where the contest for control of Macmillan Inc in the US has intensified bid speculation in the UK publishing industry. Reed International and Pearson both attracted buyers, but closed below the day's highs.

London SE

Shares traded (million)

18 19 20 21 22 23 24 25 26 27

July 1988

FT-SE 100 SHARE INDEX

1814.3

1814.3

1814.3

1814.3

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ICI's increase of 13 per cent in first half profit was above market expectations, but the shares were restrained by the rise in sterling. Analysts noted that the currency factor had cost already cost ICI £75m in the half year.

The early gain of 7.3 in the FT-SE Index melted away towards the close when rumours of impending rights issues and/or takeover bids circulated.

At its final reading, the FT-SE Index showed a net gain of only 0.5 at 1814.3. Turnover, which included a substantial contribution from the takeover sector, increased significantly, taking the week volume total to 484.3m shares at 5 pm (383.5m on Wednesday).

Gilt-edged were mesmerised by the currency markets. "Who would have thought that the pound would rise sharply after such awful UK trade figures", commented one dealer, referring to Wednesday's disclosure of a £1.1bn deficit on the UK current account in June.

Long-dated Gills added 7/8 or so in the wake of the rising currency. Dealers believed that the authorities will continue to restrain the pound via currency intervention at present, and will not be willing to cut base rates.

International stocks suffered mixed fortunes, with sentiment changing through the day. ICI's results were above expectations, but the shares were restrained by the rise in sterling/Dmark rate. US institutions were also notably absent.

The shares closed just worse as the price fell 21 to 48p, but 1.8m Reuters ran into renewed selling pressure, particularly in the US where ADR trade was significant. There were few buyers as the price fell 21 to 48p, but 1.8m Reuters ran into renewed selling pressure, particularly in the US where ADR trade was significant.

Barclays lost ground after announcing the interim results, which included a dividend increase above market expectations, leaving only Lloyds to complete the sector's reporting season when it announces its half time profits today. Barclays moved up immediately after the dividend rise, but the latter index indicated some analysts' doubts over low debt provision and a heavy fall in UK lending margins. At 40p, the shares were 21 to 48p.

The attention switched to Lloyds, which slipped 10 to 28p, mostly in late trading when rumours of an impending rights issue in the market attached themselves to the banking sector.

Lloyds entered the frame when Standard Chartered shares jumped 25 to 48p. Midland (42p) and NatWest (35p) remained quiet as their respective interim statements were digested by the market.

## FT-ACTUARIES SHARE INDICES

These indices are the joint compilation of the Financial Times, the Institute of Actuaries and the Faculty of Actuaries

EQUITY GROUPS & SUB-SECTIONS		Thursday July 28 1988		Wed Jul 27		Tue Jul 26		Mon Jul 25		Year ago	
Index	Day's Change %	Index	Day's Change %	Index	Day's Change %	Index	Day's Change %	Index	Day's Change %	Index	Day's Change %
1 CAPITAL GOODS (209)	806.18	+0.4	9.97	806.18	+0.4	806.18	+0.4	806.18	+0.4	806.18	+0.4
2 Building Materials (29)	1018.62	+0.4	12.17	1018.62	+0.4	1018.62	+0.4	1018.62	+0.4	1018.62	+0.4
3 Contracting, Construction (57)	1610.61	+0.7	10.21	1610.61	+0.7	1610.61	+0.7	1610.61	+0.7	1610.61	+0.7
4 Electricals (12)	218.38	+0.8	8.44	218.38	+0.8	218.38	+0.8	218.38	+0.8	218.38	+0.8
5 Electronics (31)	1755.80	+0.2	6.68	1755.80	+0.2	1755.80	+0.2	1755.80	+0.2	1755.80	+0.2
6 Mechanical Engineering (56)	428.49	+0.6	9.76	428.49	+0.6	428.49	+0.6	428.49	+0.6	428.49	+0.6
7 Metals and Metal Forming (7)	494.39	+0.2	9.42	494.39	+0.2	494.39	+0.2	494.39	+0.2	494.39	+0.2
8 Food Retailing (16)	1151.51	+0.2	4.51	1151.51	+0.2	1151.51	+0.2	1151.51	+0.2	1151.51	+0.2
9 Other Industrial Materials (23)	1342.12	+0.1	8.88	1342.12	+0.1	1342.12	+0.1	1342.12	+0.1	1342.12	+0.1
10 CONSUMER GROUP (186)	1955.58	+0.2	8.99	1955.58	+0.2	1955.58	+0.2	1955.58	+0.2	1955.58	+0.2
21 Brewers and Distillers (21)	1110.25	+0.2	10.72	1110.25	+0.2	1110.25	+0.2	1110.25	+0.2	1110.25	+0.2
22 Food Manufacturing (21)	1005.19	+0.2	8.40	1005.19	+0.2	1005.19	+0.2	1005.19	+0.2	1005.19	+0.2
23 Food Retailing (16)	1151.51	+0.2	4.51	1151.51	+0.2	1151.51	+0.2	1151.51	+0.2	1151.51	+0.2
24 Leisure and Household (12)	1342.12	+0.1	8.88	1342.12	+0.1	1342.12	+0.1	1342.12	+0.1	1342.12	+0.1
25 Leisure (20)	1342.12	+0.1	8.88	1342.12	+0.1	1342.12	+0.1	1342.12	+0.1	1342.12	+0.1
26 Packaging & Paper (17)	354.44	+0.7	9.18	354.44	+0.7	354.44	+0.7	354.44	+0.7	354.44	+0.7
27 Publishing & Printing (18)	3616.94	+1.9	7.90	3616.94	+1.9	3616.94	+1.9	3616.94	+1.9	3616.94	+1.9
28 Textiles (17)	606.47	+0.3	11.41	606.47	+0.3	606.47	+0.3	606.47	+0.3	606.47	+0.3
29 OTHER GROUPS (93)	694.98	+0.1	10.95	694.98	+0.1	694.98	+0.1	694.98	+0.1	694.98	+0.1
30 Agencies (11)	1157.13	+1.8	8.86	1157.13	+1.8	1157.13	+1.8	1157.13	+1.8	1157.13	+1.8
31 Chemicals (21)	1005.19	+0.2	11.42	1005.19	+0.2	1005.19	+0.2	1005.19	+0.2	1005.19	+0.2
32 Complementary (13)	1018.62	+0.4	12.17	1018.62	+0.4	1018.62	+0.4	1018.62	+0.4	1018.62	+0.4
33 Shipping and Transport (12)	1903.11	+0.3	11.25	1903.11	+0.3	1903.11	+0.3	1903.11	+0.3	1903.11	+0.3
34 Telephone Networks (2)	640.05	+0.1	11.59	640.05	+0.1	640.05	+0.1	640.05	+0.1	640.05	+0.1
35 Miscellaneous (26)	1199.16	+0.6	11.33	1199.16	+0.6	1199.16	+0.6	1199.16	+0.6	1199.16	+0.6
36 INDUSTRIAL GROUP (488)	777.91	+0.2	9.79	777.91	+0.2	777.91	+0.2	777.91	+0.2	777.91	+0.2
37 Oil & Gas (12)	1836.06	+0.2	16.87	1836.06	+0.2	1836.06	+0.2	1836.06	+0.2	1836.06	+0.2
38 500 SHARE INDEX (500)	1058.63	+0.2	9.94	1058.63	+0.2	1058.63	+0.2	1058.63	+0.2	1058.63	+0.2
39 FINANCIAL GROUP (122)	740.40	+0.1	4.86	740.40	+0.1	740.40	+0.1	740.40	+0.1	740.40	+0.1
40 Banks (8)	1065.79	+0.1	21.42	1065.79	+0.1	1065.79	+0.1	1065.79	+0.1	1065.79	+0.1
41 Insurance (Life) (8)	1065.79	+0.1	21.42	1065.79	+0.1	1065.79	+0.1	1065.79	+0.1	1065.79	+0.1
42 Insurance (Composite) (7)	554.40	+0.6	5.31	554.40	+0.6	554.40	+0.6	554.40	+0.6	554.40	+0.6
43 Insurance (Brokers) (7)	676.94	+0.6	9.76	676.94	+0.6	676.94	+0.6	676.94	+0.6	676.94	+0.6
44 Merchant Banks (11)	1018.62	+0.4	12.17	1018.62	+0.4	1018.62	+0.4	1018.62	+0.4	1018.62	+0.4
45 Property (51)	1218.77	+0.3	5.01	1218.77	+0.3	1218.77	+0.3	1218.77	+0.3	1218.77	+0.3
46 Other Financial (30)	378.79	+0.2	10.33	378.79	+0.2	378.79	+0.2	378.79	+0.2	378.79	+0.2
47 Investment Trusts (78)	910.81	+0.4	3.04	910.81	+0.4	910.81	+0.4	910.81	+0.4	910.81	+0.4
48 Mining Finance (2)	517.82	+0.9	9.25	517.82	+0.9	517.82	+0.9	517.82	+0.9	517.82	+0.9
49 Overseas Traders (8)	1145.11	+0.1	10.98	1145.11	+0.1	1145.11	+0.1	1145.11	+0.1	1145.11	+0.1
50 ALL SHARE INDEX (710)	1814.3	+0.5	1814.3	1814.3	+0.5	1814.3	+0.5	1814.3	+0.5	1814.3	+0.5

## FIXED INTEREST

PRICE INDICES		Thu Jul 28		Wed Jul 27		Tue Jul 26		Mon Jul 25		Year ago	
Index	Day's Change %	Index	Day's Change %	Index	Day's Change %	Index	Day's Change %	Index	Day's Change %	Index	Day's Change %
1 British Government	120.42	+0.18	120.20	-	7.00	-	7.00	-	7.00	-	7.00
2 5-15 years	136.39	+0.22	136.22	0.13	8.49	-	8.49	-	8.49	-	8.49
3 Over 15 years	148.30	+0.29	147.88	-	6.88	-	6.88	-	6.88	-	6.88
4 Irredeemables	163.79	+0.32	163.26	-	7.30	-	7.30	-	7.30	-	7.30
5 All stocks	134.01	+0.22	133.79	0.07	7.79	-	7.79	-	7.79	-	7.79
6 Index-Linked	127.92	+0.03	127.88	-	1.12	-	1.12	-	1.12	-	1.12
7 Over 5 years	121.06	+0.30	120.66	-	2.13	-	2.13	-	2.13	-	2.13
8 All stocks	122.46	+0.30	122.09	-	2.04	-	2.04	-	2.04	-	2.04
9 Debentures & Loans	117.66	+0.01	117.67	-	6.54	-	6.54	-	6.54	-	6.54
10 Preference	93.06	-	93.06	-	3.43	-	3.43	-	3.43	-	3.43

4 opening index 1814.3; 10 am 1845.8; 11 am 1847.7; Noon 1846.2; 1 pm 1844.4; 2 pm 1846.0; 3 pm 1845.0; 3.30 pm

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**Nasdaq national market. 2pm prices July 28**

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### TOKYO - Most Active Stocks


	Stocks	Closing Price	Change on day		Stocks	Closing Price	Change on day
Wagon Steel	87.25n	744	+80	NCK	30.27n	648	-
Machinery Etc.	43.25n	8,000	+20	Turbine Ind	29.87n	1,150	-
Calumet Etc. Ry.	43.37n	1,570	+8.6	Keweenaw Steel	30.25n	674	-
Hatchell Lnd	34.50n	780	+40	Mills Engineer	29.87n	1,150	-
Missouri H Ind.	30.88n	883	-2.6	Honco Motor	22.55n	3,440	-

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**Closing prices  
July 28**

Class	Chen	Stock	Pf	Sig	Dir	5	100s	High	Low	Class	Chen
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Nasdaq market, 3pm prices July 28										
8789	High	Low	Last	Change	Stock	Sales	High	Low	Last	Change
13	52	51	51	-1	Forex	1	177	78	14	14
14	52	51	51	-1	Forex	2	188	74	14	14
15	52	51	51	-1	Forex	3	188	74	14	14
16	52	51	51	-1	Forex	4	188	74	14	14
17	52	51	51	-1	Forex	5	188	74	14	14
18	52	51	51	-1	Forex	6	188	74	14	14
19	52	51	51	-1	Forex	7	188	74	14	14
20	52	51	51	-1	Forex	8	188	74	14	14
21	52	51	51	-1	Forex	9	188	74	14	14
22	52	51	51	-1	Forex	10	188	74	14	14
23	52	51	51	-1	Forex	11	188	74	14	14
24	52	51	51	-1	Forex	12	188	74	14	14
25	52	51	51	-1	Forex	13	188	74	14	14
26	52	51	51	-1	Forex	14	188	74	14	14
27	52	51	51	-1	Forex	15	188	74	14	14
28	52	51	51	-1	Forex	16	188	74	14	14
29	52	51	51	-1	Forex	17	188	74	14	14
30	52	51	51	-1	Forex	18	188	74	14	14
31	52	51	51	-1	Forex	19	188	74	14	14
32	52	51	51	-1	Forex	20	188	74	14	14
33	52	51	51	-1	Forex	21	188	74	14	14
34	52	51	51	-1	Forex	22	188	74	14	14
35	52	51	51	-1	Forex	23	188	74	14	14
36	52	51	51	-1	Forex	24	188	74	14	14
37	52	51	51	-1	Forex	25	188	74	14	14
38	52	51	51	-1	Forex	26	188	74	14	14
39	52	51	51	-1	Forex	27	188	74	14	14
40	52	51	51	-1	Forex	28	188	74	14	14
41	52	51	51	-1	Forex	29	188	74	14	14
42	52	51	51	-1	Forex	30	188	74	14	14
43	52	51	51	-1	Forex	31	188	74	14	14
44	52	51	51	-1	Forex	32	188	74	14	14
45	52	51	51	-1	Forex	33	188	74	14	14
46	52	51	51	-1	Forex	34	188	74	14	14
47	52	51	51	-1	Forex	35	188	74	14	14
48	52	51	51	-1	Forex	36	188	74	14	14
49	52	51	51	-1	Forex	37	188	74	14	14
50	52	51	51	-1	Forex	38	188	74	14	14
51	52	51	51	-1	Forex	39	188	74	14	14
52	52	51	51	-1	Forex	40	188	74	14	14
53	52	51	51	-1	Forex	41	188	74	14	14
54	52	51	51	-1	Forex	42	188	74	14	14
55	52	51	51	-1	Forex	43	188	74	14	14
56	52	51	51	-1	Forex	44	188	74	14	14
57	52	51	51	-1	Forex	45	188	74	14	14
58	52	51	51	-1	Forex	46	188	74	14	14
59	52	51								

**Nasdaq national market, 3pm prices July 28**

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